

# BTI 2010 | Honduras Country Report

<b>Status Index</b>	1-10	<b>5.88</b>	# 57 of 128	
Democracy	1-10	6.55	# 46 of 128	➔
Market Economy	1-10	5.21	# 76 of 128	➔
<b>Management Index</b>	1-10	<b>5.01</b>	# 63 of 128	

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

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2010 – Honduras Country Report*. Gütersloh: Bertelsmann Stiftung, 2009.

## Key Indicators

Population	mn.	7.1	HDI	0.73	GDP p.c.	\$	3796
Pop. growth	% p.a.	1.9	HDI rank of 182	112	Gini Index		55.3
Life expectancy	years	70	UN Education Index	0.81	Poverty <sup>2</sup>	%	29.7
Urban population	%	47.4	Gender equality <sup>1</sup>	0.59	Aid per capita	\$	65.3

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

During the period under review (until February 2009), Honduras was governed by democratically elected President Manuel Zelaya (Liberal Party, PL), who took office in 2006 and whose term was supposed to end in early 2010. However, in June 2009 he was deposed by the military and replaced by parliamentary president Micheletti, provoking sharp domestic as well as international protest. In November 2008, primary elections were held to designate the presidential, legislative, and municipal candidates for the November 2009 general elections. Consistent with the country's political culture, primary contenders almost exclusively highlighted their personal virtues and their position in intraparty politics instead of proposing solutions to the country's problems. Overall, social, political and economic structures are dominated by a small oligarchic elite and are largely characterized by inequality, clientelism, informality, corruption, and the presumed infiltration of organized crime into public and private institutions. The country has not made substantial progress in overcoming the wide gap between its formally democratic system on the one hand and the de facto dominance of oligarchic interest groups and clientelistic networks on the other, a situation further destabilized by the presence of illegal violent actors such as youth gangs, death squads and drug trafficking cartels.

Although President Zelaya has increasingly turned to an anti-elite rhetoric, blaming the "poderes fácticos" ("de facto powers" that lack democratic legitimacy) for the country's difficult situation, his government has not taken any significant steps to change these power structures. The judicial system, in particular, is still strongly influenced by the political and personal interests of oligarchic actors, and the majority of Hondurans continue to be denied access to an effective and independent judiciary. It has yet to be seen whether the election of Supreme Court members by the parliament in late January 2009 will bring about significant change. The appointment of the 15 magistrates – from a list of 45 candidates nominated by a commission on which a broad range of political and civic organizations were represented – raises hopes and was strongly welcomed by the international community, in part because the legislature fiercely rejected attempts by the executive to interfere in the election process.

As the decision to join the Venezuelan-led Bolivarian Alternative for the People of Our America (Alternativa Bolivariana para los Pueblos de Nuestra América, ALBA) in 2008 may suggest, the Zelaya government has shown little political will to comply with the (Western) international community's recommendations regarding transformation toward a free market economy. The global financial crisis, which began affecting Honduras at the close of this period of review, has significantly weakened the country's previously well-performing economy and thus the government's ability to implement populist policies. The likely negative socioeconomic consequences of the crisis, and the political and societal effects possible (social unrest, rising crime), give reason for a rather pessimistic view as to the immediate future of political and economic transformation in Honduras.

## 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, 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: 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. Reina and Flores managed to gradually cut back the hegemonic powers of the armed forces. They did so by abolishing compulsory military service, by closing the military's secret service (DNI), by depriving it of autonomous financing sources, by appointing a civilian defense minister, and by removing the police from the direct control of the armed forces, among other means. These changes were made possible in the 1990s because of the reduced economic and political support for the Honduran armed forces by external actors such as the U.S. government, following the end of the Cold War. This process was aided by the military's comparatively weak influence among PL leaders (compared with its strong ties to the National Party, PN).

The 1990s also brought some important transformations in the economic sphere, but with considerably less positive results for the majority of Hondurans. The economic expansion from the production of primary (agricultural) commodities into the manufacturing or processing (maquila) of low-cost consumer goods, and the concomitantly increasing integration into the global market, did not foster sustainable or equitable economic development. Moreover,

structural adjustment policies initiated by President Rafael Leonardo Callejas (1990 – 1994, PN) and continued by all his successors 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. After the transition to a non-military government, the most important factors in transformation were the consequences of Hurricane Mitch, which devastated the country in 1998. Motivated by the humanitarian and economic disaster caused by the hurricane, foreign governmental and non-governmental donors responded with both immediate humanitarian aid and contributions to the long-term reconstruction of the country's infrastructure, leading to an economic recovery that would benefit the surviving victims in the longer run. Aiming to secure maximum sustainability for the help they pledged, major donor countries and institutions demanded modernization and further democratization of Honduras' political and economic system as a condition of their development cooperation. The governments of Carlos Flores and Ricardo Maduro (2002 – 2006, PN) committed themselves to that transformation.

However, none of the post-hurricane governments has developed a comprehensive economic policy that would enhance the economy's competitiveness, reduce vulnerability to price changes on the world market, restructure the public sector or make the country less dependent on the remittances of emigrants. The successful negotiation of a free trade agreement with the United States (Central America Free Trade Agreement, CAFTA), which came into effect on April 1, 2006, underscores 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 two-thirds of its population living in poverty, would need. It is highly questionable whether the current government's decision to join the Venezuelan-led ALBA integration initiative marks a substantial shift in foreign trade policies; the step is widely interpreted as a mere act of populism without any noteworthy economic effects in the longer run.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The existence of 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 security forces. 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 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. In spite of the Maduro and Zelaya governments' mainly repressive anti-mara policies, considerable parts of Honduras' poor urban population are still subject to youth gang violence rather than to the state's rule. Moreover, the state does not effectively exclude other actors from the use of force. Unregulated public and private security forces have assassinated many alleged youth gang members in execution-style killings. With regard to these killings, the existence and participation of death squads, partially consisting of former and current police and military staff, is still presumed by many observers. In general, the state's weakness in enforcing its monopoly on the use of force is reflected in one of the highest homicide rates worldwide. The country reported 3,262 homicides for 2007, a rate of 49.9 per 100,000 inhabitants.

Monopoly on the use of force

All citizens have the same civil rights, but the equal treatment of all citizens, especially when it comes to social and cultural (particularly language) rights, is undermined by the treatment of different ethnic identities, in particular the Garífunas of African descent, and the indigenous Lenca, Miskito, Pech, Chortí, Tolupan, Tawahka and other groups. However, no population group tries to deny the citizenship of another group nor questions the state's legitimacy.

State identity

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

No interference of religious dogmas

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, there are significant inefficiencies in the existing structures. These include tax collection and – on the part of the poor – access to due process or to the state's infrastructure.

Basic administration

## 2 | Political Participation

Universal active and passive suffrage is in place, and regular free and fair elections have been held. Nevertheless, the November 2008 primary elections – in which the population selected candidates for the November 2009 presidential, parliamentary, and municipal elections – gave reason for concern. Prior to the elections, the supreme electoral authority (Tribunal Supremo Electoral, TSE) banned Vice President Elvín Santos from running as a PL presidential candidate, adducing a constitutional prohibition blocking national vice presidents from running for president. However, the TSE did not object to the rival candidacy of National Congress President Roberto Micheletti. Articles 239 and 240 of the constitution exclude both the vice president of the republic and the parliamentary president from becoming the head of state. After Santos's proxy, Mauricio Villeda, surprisingly won the PL primaries against Micheletti, Santos resigned his vice president's role and the TSE allowed his participation in the 2009 ballots. The episode demonstrated how political influences (in this case favoring Micheletti) dominate the election authorities and how "flexible" judicial institutions can be when interpreting the constitution. Moreover, the media reported on allegations of minor electoral fraud, mainly accusing some local election committees of manipulating results regarding deputy candidatures. Altogether, the 2008 primaries showed that electoral processes in Honduras cannot yet be considered to be thoroughly fair and transparent.

Free and fair elections

In general, the elected government commands the effective power to govern despite the fact that important economic groups and drug trafficking interests 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 have occurred in the period under review. For example, in November 2008 the parliamentary Vice President Mario Fernando Hernández, a member of its Security and Drug Trafficking Commission, was shot to death by masked gunmen. The assassination was assumed to be drug-related. Only one

Effective power to govern

month later, Police Commissioner Rigoberto Aceituno, one of the highest-ranking police officials in the country, was killed, presumably on behalf of a car theft ring operated by other policemen.

No political parties are prohibited, and freedom of association is safeguarded. However, political and civic organizations place themselves at high risk when they come into conflict with the established interests of social and political power groups. The April 2008 killing of Altagracia Fuentes, secretary general of the Confederation of Honduran Laborers (Confederación de Trabajadores de Honduras, CTH), proved just how dangerous such conflict can be. In 2007, leading members of civic associations such as the Association for a More Just Society (Asociación para una Sociedad más Justa, ASJ) and the Environmental Movement of Olancho (Movimiento Ambientalista de Olancho, MAO) reportedly received death threats. Protests held by indigenous or ecological groups in rural areas sometimes face violent police reaction. For example, in July 2007 demonstrations were held across the country against open mining, calling for a new mining law. The protests were violently repressed by the police in a village in the department of Santa Bárbara and in the town Siguatepeque (department of Comayagua). Between 50 and 70 protesters were arbitrarily arrested and some of them physically abused.

Association /  
assembly rights

The freedoms of opinion and the press, while enshrined in the law, are not fully protected in practice. Because the press, radio and television markets are highly concentrated, and dominated by some of the politically and economically most powerful individuals or families, there is little plurality of opinion. Censorship is not exercised openly by the state, but it continues to be informally carried out by the government and other political and economic powers, particularly by means of bribery, the discriminatory awarding of government advertising contracts, and the intimidation of critical journalists. In October 2007, satirical radio presenter Carlos Salgado of Radio Cadena Voces (RCV) was shot dead. Weeks later, RCV's director Dagoberto Rodríguez had to flee the country because of death threats. After visiting the country in late 2007, United Nations Special Rapporteur on the Promotion and Protection of the Right to Freedom of Opinion and Expression, Ambeyi Ligabo, expressed "great concern" over the state of press freedom.

Freedom of  
expression

From the beginning of his term in 2006, President Zelaya has verbally attacked the local media for not reporting on what he considers the successes of his government. He has excessively used his power to order "cadenas de radio y televisión" (a daisy chain for presidential messages on all radio and TV channels, originally devised for national emergencies) in which he transmits his political points of view to the audience. Besides issuing the government's own newspaper, Poder Ciudadano, he has also sought to win control of a TV frequency (channel 8) in order to set up a state-owned – and thus government-controlled – television channel.

### 3 | Rule of Law

The separation of powers is established in the constitution. Yet in practice, the judiciary is 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. Although the current government's lack of an absolute majority in the National Congress fosters the system of checks and balances between the executive and the legislative, informal politics often undermine these mechanisms. An obvious case in point was the conflict between the government and parliament over the decision to join ALBA. Although this plan stemmed from the governing PL party, parliamentary President Micheletti, who controls a majority of PL deputies, initially publicly opposed the ratification of the membership treaty. Following secret negotiations between Micheletti and Zelaya, the National Congress approved the ratification act, with all PL parliamentarians, plus those of the three small parties, voting in favor (PN deputies abstained from voting).

Separation of powers

Most Hondurans have only limited access to the courts; this remains one of the most striking deficiencies in efforts to deepen 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 systematically excluded from the protections of due process. It is widely believed that the appointment of judges and public prosecutors is still subject to pressures exerted by political and economic power groups, ranging from the government to organized crime. Civil society organizations are skeptical as to whether their own participation in the nomination procedure for new Supreme Court judges, concluding in January 2009, will make a difference. Despite attempts by the president and other political actors to influence the nomination of magistrates, Congress did honor, though not without pressure, the compromise plan of selecting the 15 magistrates to be appointed to the Supreme Court from the list of 45 presented by the civil society. While that process creates hopes of a more independent judiciary, past experiences are not very promising. The previous Supreme Court was selected in 2002 using the same nomination procedure, and raised the same hopes at that time, without bearing the results desired.

Independent judiciary

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 "Plan del Poder Ejecutivo contra la Corrupción" issued in 2007, are largely seen as mere image-burnishing campaigns by the political elite. Overall, anti-corruption measures have proven ineffective, primarily due to the

Prosecution of office abuse

judicial system's inefficiency and lack of independence. This applies not only to the courts, but also to state prosecutors. Only after a 38-day hunger strike by a group of public prosecutors in April and May 2008 did parliament pass legislation allowing the prosecution of the attorney general and his deputy, and ordering scrutiny of the current attorney general's failure to investigate corruption cases linked to high-ranking officials such as ex-president Rafael Callejas. In a few cases prosecutions – but hardly any convictions – of corrupt officials have occurred: for example, the late-2008 trial of Marcelo Chimirri, former chief executive of state-owned telecommunications company Hondutel (and a relative of President Zelaya's wife Xiomara Castro). Chimirri was charged not only with corruption, but also with ordering the wiretapping of President Zelaya's telephones.

Civil liberties are severely limited by the aforementioned limited access to due process. Cultural and religious rights, however, are generally respected. Many victims of human rights abuses in the 1980s and early 1990s have yet to see perpetrators brought to court, and human rights activists, among others members of the human rights group Committee of Families of the Detained-Disappeared in Honduras (Comité de Familiares de Detenidos Desaparecidos en Honduras, COFADEH), still face death threats and enjoy little in the way of government support. Moreover, the state seems to be unable, and in some cases unwilling, to protect the civil and human rights of certain groups. For example, prison inmates are exposed to uncontrolled physical, sexual and psychological violence, including killings, by other prisoners and guards; suffer from a lack of health care, including HIV prevention; lack legal advice; and, in general, experience inhumane living conditions. A daily average of 8.9 homicides in 2007 (up from 8.5 in 2006, according to UNDP data) is clear evidence that the state does not effectively protect Honduran citizens' right to life.

Civil rights

#### 4 | Stability of Democratic Institutions

The previously mentioned limitations to the rule of law and, to some extent, stateness, reduce the ability of institutions to operate effectively and without restriction. A severe lack of funding and know-how (manifesting in 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, the executive's capability was severely limited by the obstructive attitudes of the other two branches of government, especially the parliament. This was due not to the lack of an absolute majority on the part of the governing party in the National Congress, but to the fact that President Zelaya could not ensure even the support of the PL bloc for his policies. Zelaya's leftist, Chávez-inspired agenda is not very popular among the population or among legislators. More importantly, the majority of liberal deputies

Performance of  
democratic  
institutions

are known to be loyal to PL party oligarchs other than Zelaya, with the majority owing some allegiance to Roberto Micheletti. Most prominently, Zelaya's rivals in the legislature and the Supreme Court frustrated his plans to reduce car traffic in major cities ("Hoy no circula") and to close Tegucigalpa's airport Toncontín (after a plane crash caused five deaths in May 2008).

Social and political elites have come to terms with the existing level of formal democracy. In September 2008, following (unsubstantiated) rumors that President Zelaya planned to stay in office beyond the end of his term in 2010, the armed forces declared that they were prepared and willing to defend the constitutional order. However, certain institutions of the democratic state – primarily an independent judicial branch – have not yet been fully accepted by all of the key players. These institutions have instead been circumvented or manipulated in the service of individual political or economic interests. The state's efforts to cut back the powers of illegal actors such as organized crime groups, which do not threaten the democratic system as a whole but place themselves outside this system, have failed to make substantial progress.

Commitment to  
democratic  
institutions

## 5 | Political and Social Integration

The PL and PN together control 117 of the 128 seats (91.4 %) in the legislature, and gained an even bigger share of votes in the last presidential elections (2005). Both parties are deeply rooted in society, not by socio-demographic cleavages but rather by a system of clientelism and patronage. State institutions, including the judiciary and public bureaucracy, are politicized – not in an ideological sense, but in the sense of clientelistic politics – and are viewed as the spoils of political victory. There is no real ideological polarization between the Nationalists and the Liberals, and programmatic differences are largely unclear, or even nonexistent. In their November 2008 primary 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. Voter decisions often depend on clientelistic networks and family voting traditions. Smaller parties are not free of clientelistic structures either, but overall tend toward more modern and program-based strategies, as do some minor internal movements within the PL and the PN. Due to the prevalence of traditional party-society relations, the two major parties dominate social and political life without really articulating or aggregating social interests in a bottom-to-top direction. Instead, powerful party oligarchs with strong economic interests define the parties' objectives and policies.

Party system

Yet, party fragmentation has increased since the implementation of separate ballots for president and legislative deputies. The effective number of parties (ENP) in the legislature increased from 2.1 in 1993 to 2.4 in 2005, favoring small parties to the detriment of the two traditional parties. Another important development has been the sharp decline in people's identification with any of the five political parties in Honduras. According to nationwide public opinion surveys, more than half of the Honduran population decline to identify themselves with a political party, a trend that has in turn decreased voter turnout and increased voter volatility. President Zelaya's turn to left-wing international politics (ALBA membership) is not due to popular demand, but rather to his intention to broaden his clientelistic base, with an eye to his post-presidency influence. He is appealing to a small but, as he hopes, growing sector of society, which he believes he can link to himself politically as a way to increase his bargaining power in the internal PL political games. In this way, he has sought to secure his own political survival and his "cuota de poder" (quota of power) for the time after the November 2009 elections.

The landscape of interest groups is clearly dominated by prevailing economic interests, including external ones. A stronger, more dynamic and pluralistic civil society is emerging rather slowly. One dynamic example is the environmental movement in Olancho and elsewhere. The interests of certain high- and middle-class groups, especially state employee trade unions (teachers, physicians) and business associations, are overrepresented in public life, with strong network ties to the political sphere that allow them to exert powerful pressure. 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 the environmental movement.

Interest groups

According to the Latin American Public Opinion Project (LAPOP) 2008 report, Honduras has the lowest level of support for democracy in Latin America. Only 59.9% of the population agreed to the statement that democracy is better than any other form of government (followed by Guatemala with 60.5% and Paraguay with 62.9%; Argentina leads with 86.9%). Surveys published by Latinobarómetro show that the adherence to democratic norms among the population declined from 51% in 2006 to 44% in 2008. Despite the relatively low consent to democracy, political protests hardly ever question the constitutional framework.

Consent to democratic norms

With the important exceptions of the internally fragmented union movement, the churches and the Olancho environmental movement, civil society organizations generally lack broad public support. Some are highly dependent on the financial and political support of foreign donors. Thus, the democratic legitimacy of their political influence is sometimes questionable – an argument often used by elected office holders and other party politicians against them. Given the perceived lack of public security, fear of straying far from home dissuades many, especially the urban poor, from engaging in social and political participation or self-organization.

Associational activities

## II. Market Economy

Honduras has made little progress in terms of economic transformation. The CAFTA agreement with the United States, which came into force in 2006, has had little positive influence. The decision to join the ALBA initiative in 2008 is not expected to bring about any significant change. Troublesome problems that impede transformation exist in the competitive order, the nation's low level of competitiveness on world markets, the corrupt economic culture and the bloated public sector. The Heritage Foundation's Index on Economic Freedom classifies Honduras as "moderately free."

### 6 | Level of Socioeconomic Development

According to UNDP definitions, Honduras' level of development as measured by the HDI is at a "medium level," yet comparatively low. The country ranks 115th out of 177 countries. The country's Gender-Related Development Index (GDI) value (0.694) is slightly lower than the general HDI value (0.700). About two-thirds of the population lives under the poverty line. Income distribution is highly unequal, even by comparison with the average for Latin America, which is 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, infrastructure, and markets). Serious social exclusion, a widespread lack of education and gender-related inequalities persist. Women in Honduras have higher levels of education than males, indicating that the causes of inequality and even discrimination are structural. Neither the recent years' positive macroeconomic data (before the beginning of the global financial crisis) nor the 2004 implementation of a debt-relief-based poverty reduction strategy have had any significant impact on poverty levels, inequality or social exclusion.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	8772.8	9671	10755.9	<b>12234.2</b>
Growth of GDP	%	6.2	6.1	6.3	<b>6.3</b>
Inflation (CPI)	%	8.1	8.8	5.6	<b>6.9</b>
Unemployment	%	5.9	4.1	3.1	<b>2.9</b>

		2004	2005	2006	2007
Foreign direct investment	% of GDP	6.2	6.2	6.3	<b>6.7</b>
Export growth	%	13.2	5.3	-0.4	<b>3.6</b>
Import growth	%	16.2	3.6	3.8	<b>8.0</b>
Current account balance	\$ mn.	-683.4	-304.3	-510.4	<b>-1225.4</b>
Public debt	\$ mn.	4831.8	4092.3	2985.9	<b>1942.5</b>
External debt	\$ mn.	6039.1	5180.5	4183.7	<b>3259.8</b>
Total debt service	% of GNI	3.8	4.1	3.2	<b>2.9</b>
Cash surplus or deficit	% of GDP	-0.7	-0.8	0.9	<b>-1.1</b>
Tax Revenue	% of GDP	14.5	14.5	15.4	<b>16.4</b>
Government consumption	% of GDP	15.0	15.5	15.6	<b>16.3</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.4	3.2	3.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.6	0.5	0.5	<b>0.7</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The foundations of free-market competition are generally secure, but not in all sectors of the economy. The government directly or indirectly controls the prices for a range of important products (e.g., gasoline, flour, milk, coffee, sugar, basic medicines). Among the lower strata of society, informal economic activities and subsistence farming play important roles. Consequently, major sectors of the labor market stand apart from the formal competitive market system.

Market-based competition

Anti-monopoly rules do exist but are not consistently enforced in practice. Family allegiances and coalitions of interest groups rule the economic stage in the different regions of Honduras. Despite conducting oil purchases by means of an international tender system, no free market for combustibles exists. However, the government has licensed telecommunications companies to operate in the country, thus reducing the quasi-monopoly power held by the two private and one state-owned company (Hondutel).

Anti-monopoly policy

Despite its rapprochement with Venezuela, the Honduran government has not called the CAFTA agreement with the United States into question. Economic integration with the country's Central American neighbors is advancing slowly; a full customs union has still not been established. Negotiations over an association agreement between Central America and the European Union were not concluded in the period under review, but substantial talks in January 2009 opened the way for possible conclusion in 2009.

Liberalization of  
foreign trade

The financial sector does not offer adequate services for the country's specific needs. Although interest rates for productive capital are close to the Central American average, they are still high, most specifically for agriculture activities. The formal banking sector has seen considerable numbers of mergers and acquisitions; the most important of these was Citigroup's purchase of the Honduras branches of Banco Uno and Banco Cuscatlán, both regional banks. Finance for small and medium-sized entrepreneurs and the small-scale rural economy has improved since 2007, boosted by the opening of the microfinance bank ProCredit (owned by Germany-based ProCredit Holding) and the transformation of the largest microfinance NGO into the first bank with a specialty in microfinance, Bancovelo. Nevertheless, access to microfinance remains insufficient in Honduras. The capital market and the banking sector have been largely stable and the global economic crisis has not caused major disruptions so far. However, the central bank has adopted some prudential monetary measures, including a cut in its monetary policy rate and a considerable decrease in its reserve rate (cash position).

Banking system

## 8 | Currency and Price Stability

The government has not managed to halt a rising inflation rate, which – mainly because of climbing petroleum prices on international markets – soared from 5.3% in 2006 to 8.9% in 2007 and an estimated 11.2% in 2008. Nevertheless, the national currency, the lempira, remained stable against the U.S. dollar. The central bank is not fully independent, and the Zelaya government has increasingly used its powers to intervene, most notably in staffing decisions, for its own political gain. The same is true for the supervising authority, the Comisión Nacional de Bancos y Seguros (CNBS); in January 2009, Zelaya appointed his personal ally, former Foreign Affairs Minister Milton Jiménez, to head the commission despite criticism of Jiménez's complete lack of experience in financial issues.

Anti-inflation /  
forex policy

Neither institutional nor constitutional arrangements effectively guarantee long-term macroeconomic stability. The government has only half-heartedly followed IMF recommendations, particularly with regard to spending on public sector wages, and to external and – more importantly – internal borrowing. Hence, apart from temporary stand-by accords, Honduras has not been able to successfully negotiate a long-term IMF agreement.

Macrostability

## 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 provided, shortcomings in the enforcement of the rule of law and in the protection of legal claims have led to a lack of respect for 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.

Property rights

The privatization of state-run services made no progress in the period under review. Some important state monopolies remain in place. President Zelaya evinced no intentions to give up the government's direct control of state-owned companies. In a turn toward increasingly populist rhetoric, and in strengthening ties with countries such as Venezuela that are opposed to neoliberal economic policies, the Honduran government has rather tended toward extending the state's involvement in the economy.

Private enterprise

## 10 | Welfare Regime

Social safety nets and public programs to reduce poverty exist but are insufficient. Private health care and old age insurance are accessible only to a very small 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 2007 it offered health care services to only 17.78% of the total population (20.76% of the economically active population), and to a similar proportion in terms of old age pensions and other services. Services even for those included in the IHSS system are insufficient. For the 80% of the population without coverage, free public health care exists in theory in the form of state-run hospitals and medical clinics. But given the low level of geographical coverage and the very limited range of services offered, the majority of the population has no practical access to comprehensive health care. In 2007 and 2008, the public health care system was further weakened by continuous strikes on the part of medical and nursing staff.

Social safety nets

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

Equal opportunity

neighborhoods. 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

Macroeconomic data have been positive but began to deteriorate in 2008, even before the global financial crisis fully hit the country. GDP growth diminished from 6.3% (4.2% per capita) in 2007 to an estimated 3.8% (1.7%) in 2008. One of the fastest-growing sectors in the period under review was the construction sector, which grew by 23% in 2007, and by another 13% until August 2008, according to data collected by the Economic Commission for Latin America and the Caribbean (CEPAL). As an effect of the CAFTA free trade agreement with the United States, as well as of rising oil prices, the trade deficit increased to the equivalent of 29% of GDP (also in August 2008). At this level, even the remittances influx, which started to decrease in the second half of the year, could not compensate. Thus, in the period before October 2008, the country experienced a loss of international monetary reserves of about \$160 million.

Output strength

## 12 | Sustainability

Compared to countries such as Costa Rica, environmental awareness is severely underdeveloped both among state officials and within society as a whole. Legal and other obstacles often hinder civic engagement in environmental issues, including the programs of NGOs. Environmental sustainability is on the national agenda only in a rhetorical sense, or when seeking to fulfill foreign donors' expectations. The state's mining and energy policies do not seriously take ecological considerations into account, as can be seen in a 2008 National Congress decision to purchase 205 megawatts of carbon-based energy ("energía sucia") from a Guatemalan consortium. The donor community initially applauded a new forestry law implemented in early 2008. Since then, enthusiasm has largely vanished: The new agency created by the law to administer the country's forests (including the issuing of logging permits), the Instituto Nacional de Conservación y Desarrollo Forestal (ICF), has in practice been no more transparent in its procedures than its predecessor, the corruption-ridden Administración Forestal del Estado-Corporación Hondureña de Desarrollo Forestal (AFE-COHDEFOR). In fact, the former head of AFE-COHDEFOR, Santos Cruz, was appointed deputy director of the ICF.

Environmental policy

The absence of a comprehensive educational infrastructure, human capital development, and a research and technology policy all constitute gaps in Honduras' development. As long as these gaps remain, the country will have only limited

Education policy / R&D

options for 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. Public teacher strikes, resulting in massive reduction in the amount of teaching performed, were common during the period under review. The most important public university of the country (UNAH, Universidad Nacional Autónoma) is in permanent crisis. The private UNITEC University has taken the lead in education and research in Honduras, above all in natural sciences, business studies and engineering.

## Transformation Management

### I. Level of Difficulty

The elected authorities' real power is limited by traditional social and political power structures, which are deeply ingrained in society. The democratic state governs effectively only within a small urban middle class. Economic elites, particularly regional ones, to some degree maintain political power systems that 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. The country's precarious economic situation and the low level of human capital, with an illiteracy rate of 17% (as of 2005), can also count as structural constraints to the current leadership's performance. Additionally, the state is losing importance because of economic and political globalization, especially in the CAFTA context. Honduras' dependency on external powers, whether in the form of U.S. trade and immigration policies or Venezuela's oil policies, considerably reduces the democratically elected political leadership's influence on economic and political outcomes.

Structural  
constraints

A network of grassroots civil society organizations that could channel political communication and thus strengthen the state's governance opportunities does exist but is still very weak. Experiences from the authoritarian period, as well as the current security situation, generate feelings of fear and distrust among many Hondurans. According to data from the Latin American Public Opinion Project (LAPOP) survey series, interpersonal trust has diminished sharply, mainly due to a perceived increase in organized and street crime. In 2006, the country reached a score of 67.2 (on a 0-100 scale), the second-highest level of interpersonal trust in Latin America. In 2008, Honduras only scored 51.8, with only Peru and Haiti showing lower results. Certainly, the lack of time and opportunity in the daily struggle to survive prevents large parts of the population from being active on collective issues. Trade unionism, as the only social movement with some traditional trajectory, is aggravating the situation of (un)governability; teachers unions in particular, with their never-ending, only minimally justified labor unrest, are a concern.

Civil society  
traditions

In general, ethnicity constitutes a rather marginal issue, particularly in comparison to neighboring Guatemala. Instead, Honduras is deeply split according to social class. Nevertheless, as a result of internalized power structures, a non-confrontational political culture and external pressures, there is no political polarization, nor are violent conflicts along social or ethnic cleavages likely. Since President Zelaya's turn to a polarizing discourse against the socioeconomic elite (of which he himself is part), his rate of popular approval has fallen drastically. According to CID-Gallup surveys, the number of interviewees supporting the president exceeded that of those who did not by 45 percentage points in January 2007; in October 2008, in contrast, those who disapproved of him outnumbered those in favor by 11 percentage points. Drawing on the rhetoric of polarization and class struggle is not a recipe for popular support in Honduras.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

During the Zelaya administration, coherent long-term objectives or strategies have been difficult to perceive. Many decisions seem to aim at progress towards development and poverty reduction, such as allowing Venezuela and Cuba to finance or conduct social programs in the country. However, they seem to be taken due to short-term motivations rather than being part of a straightforward policy design.

Prioritization

The current government's absence of clear priorities or strategies translates into a limited capacity and political will to implement reforms. Under the Zelaya administration, many relevant reform projects have been delayed, such as the revision of the mining law, which has been due for reform since the Supreme Court declared some parts of it unconstitutional in 2006. Some other reforms, such as the new forest law, have been pushed through, but have not delivered the expected outcomes because the government has not effectively enforced them at the implementation level.

Implementation

The central government's willingness to learn from past experiences is rather low. In contrast to predecessor Ricardo Maduro, President Zelaya has not even tried to abandon the tradition of changing the ministry and other state agency staff for political reasons. There is no civil service system. Thus, the personnel's experience and knowledge, including that facilitated by the donor community's capacity building efforts, is largely lost with every change in the cabinet, because new

Policy learning

ministers and heads of other state institutions often use their power to remove lower-rank staff and give the jobs to their own clientele.

## 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 by the need to fulfill short-term political obligations, as the government's failure to reduce spending on teacher and physician salaries shows. Human resources are not at all efficiently employed. There is no effective system that might help maintain a permanent, non-partisan staff in the public administration. Staff selection is determined primarily according to political and clientelistic affiliation rather than by professional qualification. The existence of so-called paracaidistas ("parachutists," or professionally unqualified public servants who, with the help of an influential friend, "landed" on a given position by mere chance) and plazas fantasmas ("ghost employees," or persons listed on a public institution's payroll without ever appearing at work) is still widespread.

Efficient use of assets

Conflicting policy objectives cannot always be effectively coordinated and prioritized by the government. Often this is a result of the different internal and external pressures on the Zelaya administration and of the coexistence of conflicting PL factions in the executive and particularly in the legislative. The contrast between social policies on the one hand, especially the efforts to reduce poverty demanded by foreign donors as a condition for their help, and macroeconomic measures on the other, which in turn are demanded by parts of the national economic elite and their international or multinational allies, create substantial inconsistencies in the government's overall strategy.

Policy coordination

In the period under review, there has been very little progress in terms of the government's fight against corruption. A transparency law came into force in late 2006, and included the creation of a new autonomous agency, the Instituto de Acceso a la Información Pública (IAIP), which is officially tasked with facilitating citizens' informational rights vis-à-vis the public administration. According to local journalists, the law has not brought about considerable change. It has too many loopholes, and is not implemented consistently enough to effectively make relevant information from state institutions accessible to the media and the public. The National Anti-Corruption Council (Consejo Nacional Anti-Corrupción, CNA), for example, harshly criticized a 2008 IAIP decision allowing the tax authority (Dirección Ejecutiva de Ingresos, DEI) and the Ministry of Finance to keep a broad range of data classified for 10 years.

Anti-corruption policy

## 16 | Consensus-Building

The linked goals of democracy and the development of a 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. Particularly in terms of establishing societal communication channels that might ensure authentic representation, daunting hurdles continue to slow the modernization of a political system dominated by a so-called electoral democracy and an antiquated economic structure whose citizens lack opportunities for mobility. Despite a basic societal consensus with regard to democracy and the existence of democracy's fundamental rules, stakeholders have yet to tap this democratic potential.

Consensus on goals

The government can successfully neutralize or at least co-opt "traditional" potential anti-democratic veto actors, such as the military or economic groups on the local and national level. It is important to note that the military, at least on the rhetorical level, defines itself as a guarantor rather than as a potential disrupter of the constitutional order. However, 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.

Anti-democratic veto actors

The government has been able to prevent an escalation of conflicts within the Honduran society that are based primarily on extreme social disparities and, to a much lesser degree, on ethnic differences. However, the political leadership does little to repair deep societal cleavages that could potentially escalate into serious conflict. Despite President Zelaya's anti-elite discourse, there have been no major efforts to introduce redistributive policies such as large-scale land reform (Zelaya is a large landowner himself). In 2008, the gender cleavage temporarily gained much importance: The traditionally fractured women's movement stood together in complete unity to protest against a visit to Honduras by Nicaraguan President Daniel Ortega. Ortega is accused of having sexually abused his stepdaughter for years. President Zelaya made no concessions to the protesting women, insisted on welcoming Ortega, and accepted without major comment the decision of then-Minister for Women's Affairs Selma Estrada to resign in protest.

Cleavage / conflict management

The Zelaya government has actively sought dialogue with civil society organizations on some important issues. In some cases, such as the process of decentralized PRSP implementation, this was due to donor expectations. In some other cases, civic groups, NGOs, intellectuals and other civil society figures participated in the policy design process, but the designed policies were never implemented. The Security Ministry, for example, elaborated a five-year strategy for public and citizen security policies (“Bases de la Política Integral de Seguridad Pública y Ciudadana”) for 2008 – 2012. The drafting process concluded in March 2008 and included a phase of consultation and concertation with national and local civil society organizations, experts, and the media. At the end of January 2009, President Zelaya had not yet signed the plan, which had thus not yet come into effect.

Civil society participation

Dealing with injustices of the past, such as human rights abuses perpetrated by the military and the secret police in the 1980s and early 1990s, has become part – even if not a very prominent part – of the political agenda. The government has started, albeit somewhat hesitantly and sluggishly, to develop measures to provide victims with indemnification. In an executive decree in December 2008, the government created the National Program for Reparation (Programa Nacional de Reparaciones, PNR). It has yet to be seen how seriously the program will be implemented, and whether it will be furnished with sufficient resources. However, the program is exclusively designed to provide (financial) indemnification to the victims or their families. It will not seek to prosecute the perpetrators of abuses, and will thus not bring about justice in a comprehensive sense.

Reconciliation

## 17 | International Cooperation

External stakeholders play a key role at various levels of the transformation process in Honduras. Given the low level of development, the most important role of the international community involves the allocation of credit facilities and the implementation of programs. Donor interests are transmitted to the national government primarily by means of the “G-16,” a coordinating body of the 16 most important donor countries and international cooperation agencies. The 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 conditionality requirements of foreign aid on a case-by-case basis, rather than the result of a sustainable learning process and principled acceptance of donors’ transformation demands. In transnational relations, the economic and political models provided by international companies (bananas, maquilas) and foreign military organizations have been very effective. This has been particularly true when it comes to demanding economic integration with the United States (CAFTA) or specific conditions for investments (maquila). It has yet

Effective use of support

to be seen how effectively – and with what degree of coordination between Honduras, the donor government and the other receiving countries – the government will use the resources provided by the United States within the framework of the Mérida Initiative. President Zelaya signed the adhesion agreement for this program, designed to tackle drug trade and organized crime in Mexico and Central America, in January 2009.

External donors, as well as private and intergovernmental international credit institutions, have grown increasingly skeptical as to the current administration's credibility and reliability. The IMF has granted only stand-by agreements, conditioned to short-termed reevaluations. Risk ratings have fallen in the period under review (indicating a relative rise in risk levels); the overall assessment given by the Economist Intelligence Unit in January 2009, for example, was D (E being the most risky rating). The government's alignment to Bolivarian Venezuela and to the Ortega administration in Nicaragua has raised serious doubts among the international community as to the Zelaya government's commitment to democratic principles and market-oriented reforms.

Credibility

At the regional level, Honduras continues to enjoy full membership in the Central American Integration System (Sistema de Integración Centroamericana, SICA) and has participated in negotiations both for a full Central American customs union and for an association agreement between the SICA countries and the European Union. 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. President Zelaya signed the Mérida Initiative treaty in January 2009. On a wider regional level, Honduras committed itself in mid-2008 to closer cooperation with Venezuela, Cuba, Bolivia, Nicaragua and the Caribbean island of Dominica, by adhering to the Venezuelan-led ALBA integration program.

Regional  
cooperation

## Strategic Outlook

Overall, the current government fits into the framework of traditional bipartisan politics in Honduras. The major challenge for the country's political and economic future remains the reduction of informal politics, particularly corruption and clientelism. President Zelaya's turn to populist, left-wing rhetoric and his rapprochement with Bolivarian Venezuela, socialist Cuba and Sandinista Nicaragua consists above all of symbolic gestures, and should not be overinterpreted either in terms of supposed dangers to the market economy nor as representing potential threats to the principles of representative democracy. Zelaya largely lacks support among the public at large or among political and economic elites for his leftist agenda.

By contrast, the global financial crises will have a strong impact on the country, because its economy is heavily dependent on trade with and capital flows (investment, remittances) from the United States. External actors should consider that Honduran state resources are far from sufficient to effectively confront the crisis or even mitigate the social consequences it is likely to generate (for example, mass layoffs in the maquila sector, or price deteriorations for agricultural products). Also, given the current trend in many industrialized countries of increased state involvement in the economy (nationalization of banks, use of public funds to rescue the car industry etc.), it makes little sense to recommend immediate further steps toward a free-market economy to countries such as Honduras. An association agreement between Central America and the European Union, which is likely to be signed in the near future, could bring a historic chance for the Central American countries to countervail or at least attenuate their overwhelming economic and political dependence on the United States. This scenario seems to be more promising for Honduras than the creation of political and economic uncertainties by adopting Chávez- or Ortega-style policies.

In the medium and long term, foreign donors should promote democratic and economic transformation primarily by supporting Honduras' formal and informal education sector, and by strengthening emerging civil-society structures. Deficits in human capital are a major obstacle to the country's economic development, and considering the magnitude of the problem, it seems very unlikely that the state will solve this without substantial external help. Foreign actors should also use their financial and political influence to promote the establishment of a sound judicial system and the strengthening of the rule of law. Furthermore, the development of functioning civic structures would help to consolidate democracy.

Another issue that has not been taken deeply enough into account by the international aid community in the past is the potential for integrating the maquila sector into the rest of the economy, thus making the sector's benefits more equitable. The same applies to remittances, the country's other big source of financial influx. Technical assistance should promote a less consumer-oriented and more sustainable use of remittances from emigrants. Regarding the issue of crime-related violence – a major risk factor for domestic and foreign investment, and a

hindrance in building up social capital and citizen participation – internal and external actors should recognize the complete failure of the repressive policies implemented by the current and previous governments. They should invest heavily in prevention, rehabilitation and the introduction of a system of restorative justice.