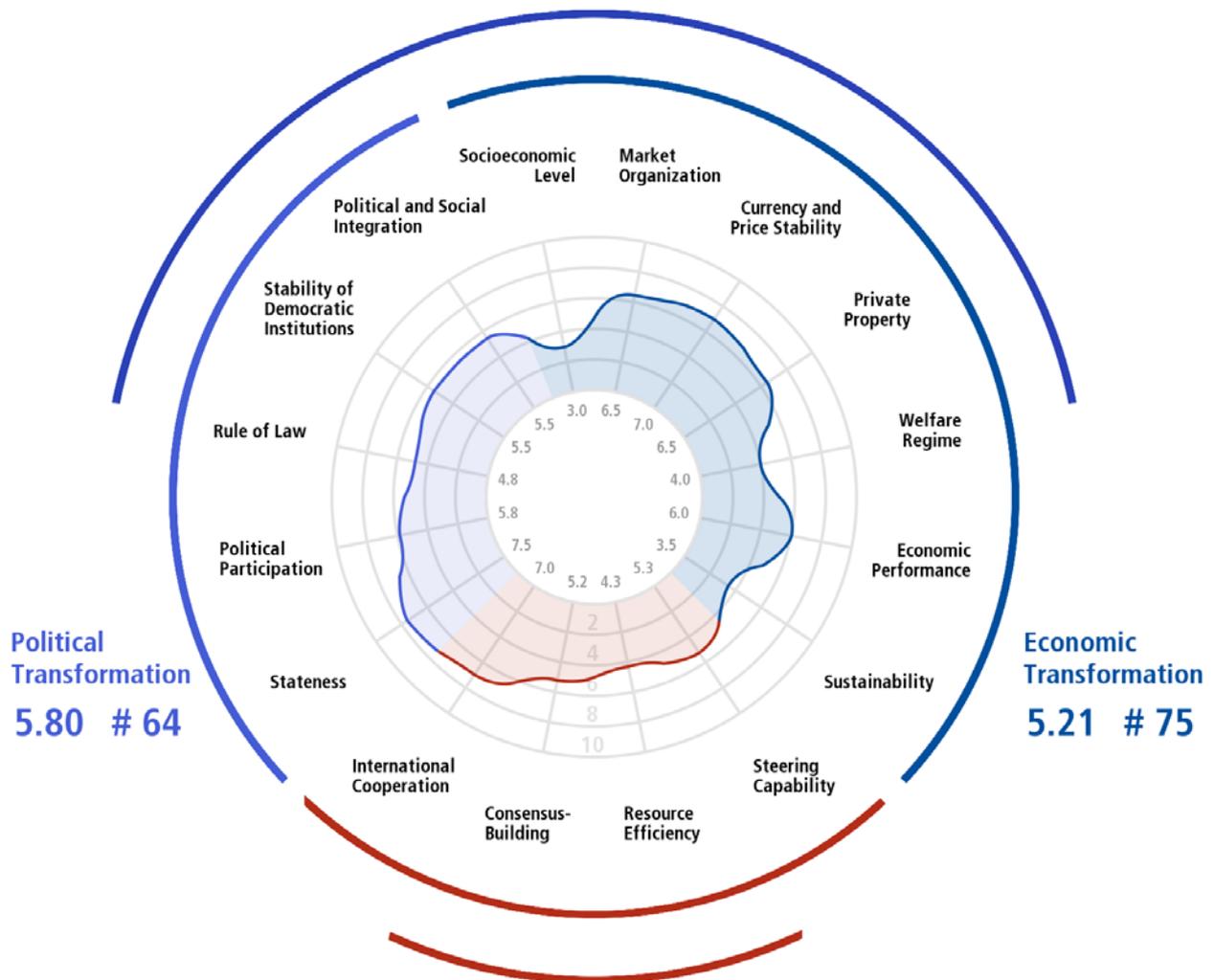


Honduras

Status Index

5.51 # 64

on 1-10 scale out of 129



Governance Index

4.98 # 66

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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 2018 Country Report – Honduras. Gütersloh: Bertelsmann Stiftung, 2018.

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

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	9.1	HDI	0.625	GDP p.c., PPP \$	4738
Pop. growth ¹	% p.a.	1.7	HDI rank of 188	130	Gini Index	50.1
Life expectancy	years	73.3	UN Education Index	0.546	Poverty ³	% 34.8
Urban population	%	55.3	Gender inequality ²	0.461	Aid per capita \$	59.9

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the review period, a key aspect of Honduras's transformation has been the Supreme Court's controversial decision to overturn the single-term presidential limit. This allows the current president, Juan Orlando Hernández, to campaign for re-election in the upcoming 2017 election. Having won only 35% of the vote in the 2013 election, Hernández has consolidated his power over the last two years, maintaining control over the main state institutions (e.g., the National Congress, the Supreme Court of Justice and the Supreme Court of Audit) by appointing political activists of his party to key positions. This situation threatens to destabilize the already weak democratic institutions. The opposition rejects the president's re-election project and has declared it a violation of the constitution. In 2009, a similar attempt by the left-wing president, Zelaya, resulted in a coup d'état, inducing a loss of confidence in the democratic system among Hondurans. Zelaya had planned a referendum on a constitutional reform that would have overturned the single-term limit and enabled his re-election.

Politically, the situation in Honduras is very mixed. While there seems no imminent danger of a collapse of the democratic system, the democratic system in Honduras is clearly poorly developed or unstable. Many political actors cannot operate freely, political murders and intimidation are common, and endemic corruption is undermining the foundations of the democratic system. The independence of the various branches of government is not guaranteed and fundamental human rights are routinely violated, including the right to life, freedom of expression and assembly, and freedom of the press. Equality before the law is also a long way from being achieved, as is equal treatment of all people by state agents.

The strength of Honduran democracy will be severely tested during the 2017 presidential election. It is questionable whether free and fair elections can be guaranteed given the endemic violence and a lack of state control over significant parts of Honduras' national territory. In other words, the state cannot guarantee a minimum level of security for all its citizens.

On the economic front, the picture is also mixed. While the macroeconomic picture for Honduras looks reasonably good, structural inequalities mean that very few people benefit from the country's economic growth and stability. There are very few indications that the government is prepared to address the conditions that sustain these structural inequalities. Consequently, most Hondurans will continue to live in poverty and without any material security. This situation has also not changed despite the fact that the Honduran government has made concerted efforts to use its relatively good international standing to drive economic development. Foreign investment is increasing but is often used to finance mega-projects that cause and exacerbate enormous social tensions and violence across the country.

Honduras continues to be one of the most dangerous countries on Earth outside war zones, with severe consequences for people and the country. The country loses significant amounts of potential economic activity and manpower to violence either through death and injury or emigration. This, again, is a structural problem linked to inequality which the government seems disinclined to resolve.

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. 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, 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 starting to develop 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 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 by the reduction of U.S. economic and political support in a post-Cold War era.

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 evolution from the production of primary (agricultural) commodities into the manufacturing or processing (maquila) of low-cost consumer goods, and increasing integration into the global market, however, did not foster sustainable or equitable economic development. Moreover, structural adjustment policies initiated by President Rafael Leonardo Callejas (1990 – 1994, PN) deepened socioeconomic inequalities. The economic growth fostered by those policies failed to compensate for cutbacks in social spending and job opportunities in the public sector.

After Hurricane Mitch devastated the country in 1998, major donor countries and institutions demanded the modernization of the country's political and economic systems. However, none of the post-hurricane governments developed a comprehensive economic policy able to enhance the economy's competitiveness, reduce vulnerability to price changes in world markets, 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, needs. This is in large part due to the lack of agricultural development, which prevents a considerable portion of the Honduran population from participating in the formal economy.

The 2009 coup against then President Manuel Zelaya (2006-2009, PL), was a major setback in democratic development. An interim government took power and attempted to crush the anti-coup protest movement resulting in serious human and civil rights abuses. A broad range of political and judicial institutions, including Congress and the Supreme Court, backed the ousting of Zelaya, accusing him of violating the constitution. The presidential and parliamentary elections of November 2009, although conducted properly, proved insufficient in overcoming the crisis. Under President Lobo (2010-2014), a truth commission, consisting of prominent Honduran and foreign personalities, was formed in an effort toward national reconciliation. The final report of the commission condemned the ouster of Zelaya as a coup d'état and suggested a series of political reforms in order to avoid a similar political crisis in the future. The last elections in 2013, while electing Juan Orlando Hernández as president, also ended the two-party system that had dominated the country's politics, though the governing PN successively consolidated its power.

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 state's monopoly on the use of force is strongly limited by criminal organizations. There was an apparent reduction of drug-trafficking activities in 2015 as a result of strikes by U.S. agents against the main drug-trafficking groups. In May 2014, Carlos "El Negro" Lobo became the first Honduran drug trafficker to be extradited to the United States. However, a series of powerful local groups – Cartel del Atlántico, Cachiros and Valles, which are connected to Honduras' political and economic elites – manage most of the drug-trafficking activities in the country according to InSightCrime.

The connections to politicians and businessmen became evident when members of the elite like the sons of the previous president and of the Rosenthal family, one of the country's most powerful families, were extradited and sentenced by U.S. tribunals. In November 2016, Wilter Blanco, the suspected leader of the Atlantic Cartel who had been charged with drug crimes in the Southern District of Florida, was captured in Costa Rica (and sentenced by a U.S. federal court in Miami to 20 years imprisonment in 2017). According to InSightCrime, several other Honduran citizens which were under investigation for their alleged involvement in Blanco's drug-trafficking scheme, including members of the Honduran military and police, have not been indicted in the United States so far.

Another reason for the country's insecurity is the presence of large and, at least in parts, increasingly sophisticated street gangs. Juvenile delinquency has increased. According to the United Nations Office on Drugs and Crime (UNODC), the infamous Mara gangs such as Barrio 18 and Mara Salvatrucha (MS13) have recruited an estimated 36,000 members in Honduras since 2010. Though these numbers have to be treated with caution since "being a gang member" is often a contested concept both politically and locally on the ground. The fact is that these gangs use extortion methods comparable to those of traditional mafias against taxi drivers, transport companies and small businesses as well as large enterprises. They charge the so-

Question
Score

Monopoly on the
use of force

6

'06 _____ '18 10

6

_____ 1

called tax of war not only in poor districts but also in well situated areas. Citizens and many businesses are threatened with extortion and kidnapping, and the authorities' investigative capacities are very weak. The national police are highly corrupt and often work for, or are controlled by, local street gangs or national and international drug gangs.

As a result, the Honduran government has increased its use of the military to enforce the rule of law, sparking human rights concerns. According to the 2015 Observatory of Violence of the UNAH, a total of 8,035 deaths due to external influence have been registered in Honduras, which indicates a decrease of 7.8% in comparison to the year before (8,719). The homicide rate has been decreasing according to official statistics but continues to be one of the highest in the world.

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 are frequent and have led to deaths, in some of which state-involvement is suspected or even probable.

The nation-state is recognized and accepted as legitimate by the large majority of the population. There are seven culturally different indigenous peoples (Maya-Chortí, Lenca, Tolupan, Pech and Tawahka, Misquitos, Sumos, and Ramas) and two Afro-Honduran peoples (Garifunas and afro-descendants).

No social group denies the rights of others because of their ethnic or religious origin in Honduras. However, indigenous peoples and afro-descendants are strongly disadvantaged within society. The government set up the General Direction for the Development of the Indigenous and Afro-Americans (DINAFROH), which formulates the Public Policy against Racism and Racial Discrimination for the Integral Development of the Indigenous Peoples and Afro-Hondurans (P-PIAH) in consultation with indigenous peoples.

There is no state religion and, in line with the constitution (Art. 77), Honduras is a secular state. The government does not require registration of religious groups. The Catholic Church is the only “church” that is recognized by law. Other religious groups are categorized as “religious associations” with the status of judicial persons, which grants tax exemption and exoneration from customs duties. The constitution authorizes the executive to confer the status of judicial person to associations, including religious organizations, whereas new “churches” can be recognized only through a decree of the national congress. Non-Catholic religious groups, including the Episcopal Conference of Honduras (CEH), have solicited the congress for recognition as “churches,” but continue to operate as religious associations while waiting for a decision. This situation could change as particularly evangelical groups are gaining followers and influence, especially in the poorer parts of the big cities.

State identity

9



1

No interference of religious dogmas

9



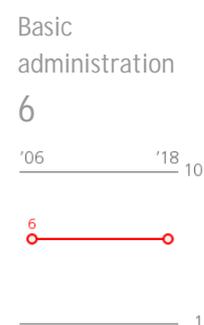
1

Some prominent Catholic and Protestant churches took part in more than a dozen governmental commissions, including the national anti-corruption commission. In some cases, churches and other religious groups are important mediators between the government and gangs.

Hondurans are traditionally very religious and very susceptible to conservative ethical-religious values. The members of the power elites publicly display their religious adherence. Honduras is one of the few countries in Latin America that does not have standards and protocols that define how to treat and take care of victims of sexual violence. According to women's organizations this is due to the enormous influence of the Christian churches on government policy. In 2014, CEH officially stated that it opposes the legalization of the marketing and use of the Emergency Contraceptive Pill (ECP).

The administrative structure has been improved and consolidated through Plans of Action in order to function more efficiently and transparently in parts of the territory. However, Honduras still shows considerable weaknesses regarding institutions and personnel. Apart from corruption and the lack of transparency, Honduras' public administration has shown low efficiency. Public companies have been co-opted by wealthy groups or syndicates that caused historically high deficits by contracting too much personal at salary levels way above the average wage of the rest of the country's population. Some recent initiatives by the current government have used this argument – and agreements with the IMF – to lay off a large number of public servants and push forward the privatization of public companies.

Basic education has improved in recent years. However, retaining students in school continues to be a challenge as they get older. Public health care continues to be a daunting challenge, as illustrated by the large-scale corruption scandal in the Health and Social Security System linked to the National Party. The resulting lack of medicine in some public hospitals led to the deaths of some patients and caused considerable public outcry. Nevertheless, some institutions, such as the IMF, have argued that the state has made considerable improvements in the management and administration of public finances in comparison to previous governments. Despite these improvements, access to safe water and sanitation as well as electric power is still very poor especially in rural areas. Most municipalities are associated in commonwealths, many of which have formed inter-municipal technical units (ICUs) responsible for the management of investment projects. Yet, corruption continues to be a huge problem at the local level and the involvement of organized crime at this level is pervasive.



2 | Political Participation

Honduras' legislation provides, in general, a sufficient basis for holding democratic elections. The electoral framework of Honduras has evolved since the drafting of the Electoral Act in 2004 and the introduction of the Integrated Vote Counting and Disclosure System (SIEDE). The law granting every citizen the right to vote is in line with the universal principles of suffrage.

However, the electoral processes are plagued by irregularities and violence, usually to the governing party's benefit. Candidates are regularly murdered and the campaign in the media is neither balanced nor fair. The laws on campaign financing remain unclear and reform attempts through MACCIH face push-back from Congress. At the same time, one cannot talk about an entirely free press, which makes the election campaign anything but balanced and fair. Election campaigns are rather long and costly, and also show an imbalance through the abuse of state resources by the parties in power.

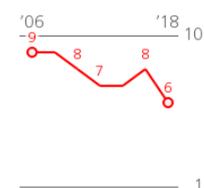
The Supreme Electoral Tribunal (TSE) has had low credibility in the past. For this reason, the TSE sought to increase its legitimacy in the 2013 elections by strengthening the role of the Advisory Council, composed of representatives of all parties, for discussion and decision-making regarding the electoral process. However, as has been the case in the past, the TSE did not adequately respond to the obvious violations of campaign rules, both at the level of funding and in electoral propaganda.

In April 2015, the electoral rules were significantly changed when the Constitutional Chamber of the Supreme Court invalidated article 239 and some related articles of the constitution, which established a strict verdict on presidential re-election, by effectively declaring them "unconstitutional." In August 2016, the Supreme Court confirmed this decision, thus moving the country from having some of the toughest presidential term limits in the world to having none, and allowing the incumbent, President Hernández, to run again for office in late 2017. Apart from the governing PN, all other political parties reject these changes, as well as the majority of the population.

In principle, the elected government commands the effective power to govern, but major economic groups and drug-trafficking interests exert substantial influence on some parts of the state apparatus, both at national and local levels. There are strong economic groups that exert enormous influence through patronage, interest trafficking and bribery. According to InSightCrime, there is a series of powerful local organized crime groups, connected to political and economic elites, who manage most of the underworld activities in the country. They have deeply penetrated the Honduran police, which is often seen to be one of the most corrupt and mistrusted police forces in Latin America. Other parts of the state are also penetrated this way. At the local level, the effective presence of the state is often not guaranteed and the

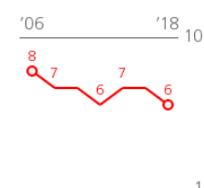
Free and fair elections

6



Effective power to govern

6



existence of parallel power structures with effective control over certain areas is common.

Compared to the former government, the current government is making a greater effort to control the police apparatus. It has, among other things, instituted a Police Reform Commission, whose aim it is to remove corrupt police officers and carry out institutional reform. However, these efforts face fierce resistance, and several members of the commission have faced death threats and actual attempts on their lives. In view of the enormous influence of organized crime groups on the police, the government took the decision to further militarize national security by creating, in August 2013, the Military Police for Public Order (PMOP), as part of the Honduran Armed Forces. This has led to criticism from the opposition and human rights advocates - including the Inter-American Commission on Human Rights (IACHR) - since violation of these rights by agents of the state are frequent.

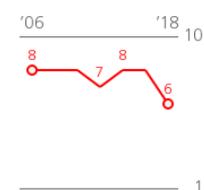
The constitution guarantees the freedom of association, and formation of political parties and organizations. There is a high degree of organization in interest groups by, for example, workers, peasants, teachers and doctors (see section 5.2) making use of their rights to demand reforms and improvements. However, these rights are seriously limited, whenever demands of interest groups collide with the interests of powerful economic groups that have strong political ties. Especially the peasant and indigenous groups are frequently victims of violent attacks by powerful groups. Armed groups and hitmen are responsible for the death of peasant and indigenous group leaders, and their crimes usually remain unpunished. The most well-known cases involve the protests of peasant groups in the Bajo Aguán region in northern Honduras and in 2016 the assassination of Berta Cáceres, the leader and co-founder of the Civil Council of Popular and Indigenous Organizations of Honduras (COPINH) which protested against the construction of a hydroelectric project called La Zarca. Cáceres was murdered despite being, nominally, under the protection of the state after receiving repeated death threats. Honduras is one of the most dangerous countries on earth to be an environmental activist.

Human rights associations have also been victims of repression in the recent past, as have journalists critical of government policy and other powerful economic interests. Notwithstanding, Honduran civil society has shown its dynamism and pluralism, and played a major part in forcing the government to set up the anti-corruption commission MACCIH.

The constitution guarantees freedom of expression, but it is subject to interference and government restrictions. According to Reporters without Borders (RSF), journalists working for opposition or community media are the targets of frequent death threats and physical violence which often result in death. The latest case was TV journalist Igor Padilla, who was shot dead in January 2017 in San Pedro while he was supervising the filming of a TV ad. Journalists are also often the targets of abusive judicial proceedings with defamation one of the charges routinely brought

Association /
assembly rights

6



Freedom of
expression

5

against them. RSF considers Honduras one of Latin America's most dangerous countries for the media. Both murders of journalists (there have been eight since the start of 2015) and cases of censorship of various kinds are frequent. A combination of criminal violence and political corruption is responsible for one of Latin America's highest levels of impunity for these kinds of crime so that attacks against journalists and other political activists often remain unpunished.

3 | Rule of Law

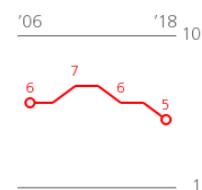
The government of President Hernández has intervened consistently in the judicial power, violating the division of powers laid down in the constitution in 1982. The current government's disrespect for the division of power has increased in recent years. In December 2012, Congress dismissed four of the five judges of the Supreme Court's Constitutional Chamber (Sala Constitucional) after they declared unconstitutional a piece of legislation against police corruption. In 2013, the legislative assigned itself the authority to remove the president of the Supreme Court of Justice.

Currently, the PN has absolute control over the institutions that are relevant for the electoral process, namely the TSE and the Supreme Court of Justice. This control was achieved through some highly dubious political and constitutional moves which undermined the legitimacy of the democratic process. In April 2015, legislators of the governing party made the court repeal article 239 of the constitution that prohibited any re-election of the president. This decision enables President Hernández to run for a second mandate in 2017. A proposal of former president Manuel Zelaya to hold a referendum with the same purpose was one of the armed forces' main official reasons to remove Zelaya in 2009.

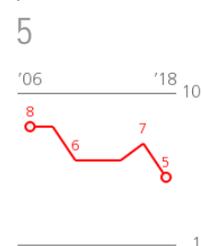
The international Commission of Jurists argues that the process of selection of the Judicial Council, created during a constitutional reform in 2011, does not include guarantees against political interference. According to data of the Inter-American Commission on Human Rights (CIDH), the council had removed 29 and suspended 28 judges by December 2014, showing clearly the constant interference in the judicial branch.

Constitutionally, Honduras' judiciary is independent, and the judicial system is institutionally differentiated. It includes the Supreme Court of Justice, a court of appeal and several courts of specialized jurisdiction which handle matters such as labor, taxes and crime.

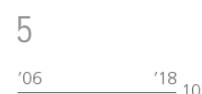
However, questions have increasingly been asked about the independence of the judiciary, given the overt politicization of the judicial branch through, at times, blatantly unconstitutional moves and the strong political interference in the selection of justices in recent years. To this one has to add the very selective application of the



Separation of powers



Independent judiciary



law, for instance in cases of corruption as well as violent crimes. The judiciary is subject to corruption at all levels and, particularly at the local level, is also often subject to violent intimidation.

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

Threats and violent attacks against representatives of the judicial system are widespread. According to the Human Rights Ombudsman, in 2013 alone, 21 law professionals (judges, prosecutors and lawyers) were killed. This kind of violence is a serious threat to the independence of the judiciary. Between 2010 and March 2015, the Inter-American Human Rights Commission (IAHRC) recorded 91 deaths of lawyers as a result of targeted killings.

Due to public pressure, Hernández's government arrested some prominent civil servants, former members of the government, legislators and mayors on charges of corruption. However, the majority have since been discharged and the majority of corruption cases are neither pursued nor punished. There continues to be a high level of impunity. Equally, the use of lethal force by members of the National Police constitutes a chronic problem. Investigations of abuses by the police have been impaired by inefficiency and corruption or simply a lack of interest on the part of the authorities. Little of information reaches the public and impunity prevails. Efforts to tackle the endemic corruption had shown scant progress. President Juan Orlando Hernández has amplified the military intervention in order to fight violent crimes. In 2015, the National Commission on Human Rights (CONADEH) enumerated the denunciations involving assassinations, kidnappings, torture, sexual violations and robberies by members of the military police and the military.

Honduras has suffered a serious deterioration regarding civil rights codified in national or international laws, including the fundamental rights to life, liberty and physical integrity. This was confirmed by all international institutions and civil society organizations that monitor civil rights in Honduras. There are mechanisms and institutions in charge of pursuing and punishing civil rights violations, but these institutions do not function appropriately. In many cases, a lack of resources is a key

Prosecution of
office abuse

5

'06 '18 10



1

Civil rights

4

reason for the low functionality, but for the majority of cases the inefficiency of the existing mechanisms is due to the lack of political interest in pursuing the violations.

According to international human rights organizations, such as Amnesty International, multiple violations of the right to personal integrity continue to occur, committed by public security forces and military bodies, as well as by the private security forces that guard the properties of local landowners. Cases of kidnapping and torture, multiple injuries and sexual abuse have been documented. These violations of personal integrity are not under judicial investigation. Attacks on judges, journalists and defenders of human rights continue, without rapid or effective investigation. In general, the lack of judicial independence has caused citizens to lose confidence in the institutions responsible for the administration of justice. The homicide rate continues to be the highest worldwide.

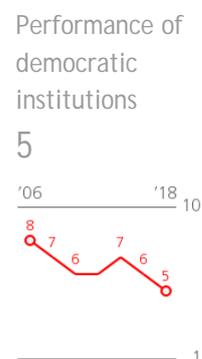
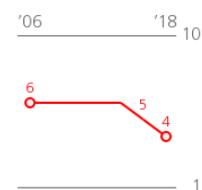
In 1994, Honduras ratified Convention No. 169 of the International Labor Organization (ILO) concerning Indigenous and Tribal Peoples in Independent Countries, and in 2007, adopted the U.N. Declaration on the Rights of Indigenous Peoples. In addition, the constitution provides protection of the rights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

Yet, despite the country's formal commitment to the protection of the human and civil rights of all its citizens, there are clear deficiencies in their practical application, particularly for indigenous people, women and the LGBT community, who are routinely discriminated against and are often the victims of violence.

4 | Stability of Democratic Institutions

Democratic institutions are severely limited in carrying out their functions, particularly in providing checks and balances of presidential power. The Supreme Court's invalidation of article 239 of the constitution has caused a substantial deterioration in Honduras' institutions for two reasons. First, the re-election was forbidden by a firmly established article, which cannot be repealed by any of the constituted powers such as the Congress, the Executive or the Supreme Court. A modification would require a constituent in line with article 2 of the same constitution. Second, article 4 of the constitution, which codifies the obligation to alternate the presidential office, is still valid and therefore the person entitled to the presidency of the republic is not allowed to hold this office for two consecutive terms (the "violation of this rule constitutes a crime of treason against the nation").

The role and functions of the Supreme Court of Justice, the National Police and the army in stabilizing and guaranteeing democratic order are disputed as there is no



guarantee of their independence from the executive. Bearing in mind Honduras' recent history and the volatility of the democratic process, future instability cannot be ruled out.

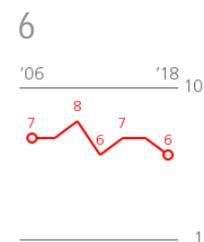
None of the stakeholders openly calls into question the role and functions of democratic institutions. The leftist party Liberty and Refoundation (LIBRE) initially questioned the results of the elections that brought to power Hernández, but eventually accepted the results. The TSE and the Supreme Court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

However, due to corruption and impunity, the acceptance of institutions in Honduras has diminished over the last few years. There is a discrepancy between the passage of laws, and the capacity and the willingness of civil servants to put them into practice. In January 2016, President Hernández signed an agreement with the Organization of American States (OAS) to establish the Mission to Support the Fight against Corruption and Impunity in Honduras (Misión de Apoyo contra la Corrupción y la Impunidad en Honduras, MACCIH). While the establishment of this commission was a response to large-scale demonstrations demanding the establishment of an international anti-corruption court and commission backed by the United Nations, after the example of Guatemala's CICIG, so far MACCIH does not have the same amount of independence as CICIG has, and its limited power to force the government and other state actors to act upon its recommendations has been condemned by civil society. It has also been evident that Congress has, at times, fought strongly to dilute or block legislative proposals presented by MACCIH.

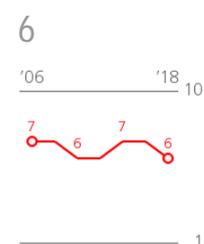
5 | Political and Social Integration

The traditional system of political parties underwent serious changes at the last elections. Despite the changes, the main pillars of the party system in Honduras are stable and socially established. However, away from this, fragmentation is becoming more common. Two new parties are strongly represented in parliament after the 2013 elections, namely the Liberty and Refoundation (LIBRE) and the Anti-Corruption Party (PAC). These parties have challenged the power of the two traditional parties, the PN and the Liberal Party (PL), which have dominated the political scene since the 1980s. Yet, these new parties have suffered internal crises and splits, a process of fragmentation which may well continue after the 2017 elections, especially if the current government pushes forward with plans to facilitate the inscription of new political parties.

Commitment to democratic institutions



Party system



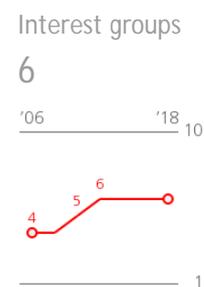
At the moment, none of the existing political parties has an absolute majority, although the electoral system allows for a simple-majority government and there is no second round in the elections.

The two traditional parties still control the most important aspects of the economy and the media. Inequality in resources available to political parties can be seen in advertising and media billboards. This inequality is accentuated by the use of public resources for campaign finances by the ruling parties. The use of financial resources or state property for electoral propaganda is clearly prohibited by Article 142 of the Electoral Act but is not enforced evenly.

Campaign and party financing has been identified as one of the main sources of corruption but wide-ranging reform proposals face significant resistance from Congress and parts of the government.

The influence of interest groups is still very variable in Honduras. The worker and peasant movement that was traditionally well organized is still active in political life. There are three recognized and quite influential labor unions: CGT, CUTH and FUTH. The National Union of Campesinos (UNC) and the National Association of Farmers of Honduras (ANACH) are the largest farmers' and peasants' organizations. Among the most militant unions so far are groups of teachers (COLPROSUMAH, PRICMAH). At the same time, the private sector has groups (COHEP, ANDI, AHM), which exert enormous influence on government policies. In recent years, a number of NGOs have also emerged. They are often single-issue organizations focused on topics such as environment or gender inequality. There are also organizations promoting human rights (COFADEH, CIPRODEH, CODEH) or the rights of historically underprivileged or discriminated against population groups, such as women (CDM, Las Chonas), sexual minorities (Rainbow Association) and indigenous and Afro-Honduran Communities (COPINH, OFRANEH). The Civic Council of Popular and Indigenous Organizations (COPINH) brings together indigenous communities in the west of the country who reject mining investment and construction of hydroelectric projects. Its leaders are often victims of police harassment, particularly since the coup of 2009. But many of their members are subjected to repression and attacks on their lives. Often harassment of members of popular organizations are not, or only superficially, investigated and goes unpunished.

Despite this wide array of interest groups, few have been able to influence policy-making effectively due to the historically low accessibility of the political system, thus discouraging participation. Exceptions include interest groups with considerable economic resources (e.g., business organizations) and those with the capacity to exert pressure through strikes and demonstrations (e.g., teachers, workers' and peasant unions). Other segments of the population, particularly citizens from the lowest strata of society, are underrepresented and have little to no access to political decision-makers.



In general, Hondurans do not strongly support democracy. According to the 2016 Latinobarómetro survey, only 41% of respondents agreed that “democracy is preferable to any other system of government,” significantly below the Latin American average (54%). Conversely, 62% of respondents agreed that a non-democratic government would be acceptable if it were to resolve the country’s economic problems. Together with El Salvador, this was the highest percentage among Latin American countries.

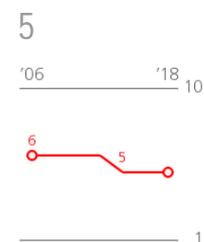
Opinion polls also show that there is little trust in representative institutions such as political parties, the National Congress and the presidential office. According to an opinion poll by the Observatory of Violence of the National Autonomous University (UNAH), only 14% of respondents trusted the president, while 43% had no trust at all, and only 9% of respondents trusted Congress. In comparison to 2011, only trust in the police has improved. One out of three respondents reported “absolute trust” in the Catholic Church (36%) and the Protestant Church (36%). Only 4% of the respondents trusted the political parties.

Such a deficit of trust is a major challenge for the governmental institutions that are supposed to represent the interests of the citizens. The study also indicated that the public has the same level of distrust in the National Police (58.6%) as in the municipal authorities (58.1%). This could be closely related to recent arrests of policemen and mayors involved in organized crime. The fact that the population has low trust in the public institutions in charge of executing the law shows that the population has noticed a relation between the high levels of impunity and the institutions responsible for investigating and sanctioning the culprits. More precisely, 56.5% of respondents reported that they had no trust in the Public Ministry and 56.2% distrusted the Supreme Court of Justice. All of these findings suggest that an erosion of faith in democracy is a very real danger looking to the future.

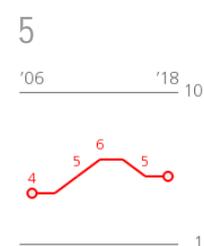
The constant sense of insecurity and the real lack of physical safety for significant parts of the population are major obstacles to developing civil society associations and collective initiatives. This also limits the possibility of establishing consensus on solutions to a variety of social problems. In addition, there is very little interaction between the different sectors of Honduran society, such as rich and poor people. Consequently, no coherent strategy for a cross-sectoral solution to particular problems can be developed. In fact, this lack of even informal interaction between different parts of society means that there is often no agreement on what the problem actually is. Association occurs within particular social sectors, and is often informal and fluid, depending on the particular issue to be addressed at one particular time.

Social capital is also limited by corruption and political patronage, which limits access to power and authority to all individuals who do not demonstrate militancy with the party in power. According to a UNDP study, the lack of civil security has multiple negative impacts on human development. Crime, violence and fear limit capacities and liberties of the people, and strongly influences interaction with the rest

Approval of
democracy



Social capital



of society and with state institutions. This impacts on the people's code of conduct, limits their coexistence in public space and affects their liberty. According to Latinobarómetro 2016, interpersonal trust is low in Latin America (on average, 17% of respondents say one can trust in the majority of people), but in Honduras only 13% of respondents state that one can trust the majority of people.

II. Economic Transformation

6 | Level of Socioeconomic Development

Honduras' level of development as measured by the Human Development Index (HDI 2015) was 0.606 in 2014. This was below the average of 0.630 of countries in the medium human development group, and below the average of 0.748 for Latin America and the Caribbean. The country ranked 131 out of 188 countries. Among Latin American countries, only Haiti exhibited lower levels of human development. According to government data, 60.5% of Honduran households lived under the national poverty line in 2016, with 38.4% falling into the definition of extreme poverty.

Socioeconomic inequality remains among the highest in Latin America with a Gini coefficient of 53.7 (2016) and an HDI human inequality coefficient of 30.7% (the average for Latin America and the Caribbean was 23.7%). The wealthiest 20% of the population received 55% of all income in 2014, while the poorest 20% received only 3.2% of aggregate income. This disparity has remained 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 experienced by rural populations. Small-scale and 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 causes of poverty. Lack of employment opportunities in rural areas has been a major driving force behind the country's high level of emigration.

The country's 2015 Gender Inequality Index (the loss in human development due to inequality between female and male outcomes) was 0.480, higher than the regional (0.415) and the global average (0.449).

Question
Score

Socioeconomic
barriers

3

'06 '18 10

3

1

Economic indicators		2013	2014	2015	2016
GDP	\$ M	18499.7	19756.5	20844.3	21516.9
GDP growth	%	2.8	3.1	3.6	3.6
Inflation (CPI)	%	5.2	6.1	3.2	2.7
Unemployment	%	3.9	5.5	7.4	6.3
Foreign direct investment	% of GDP	5.8	6.6	6.3	5.2
Export growth	%	-1.3	3.4	3.5	0.3
Import growth	%	-4.1	3.4	8.9	-1.7
Current account balance	\$ M	-1762.5	-1444.2	-1291.4	-
Public debt	% of GDP	40.1	39.9	40.1	41.5
External debt	\$ M	6830.9	7328.8	7585.2	7579.3
Total debt service	\$ M	924.6	701.5	1283.6	1034.1
Net lending/borrowing	% of GDP	-3.7	-2.6	-0.9	-
Tax revenue	% of GDP	15.1	16.5	17.5	-
Government consumption	% of GDP	16.7	15.3	14.5	14.5
Public education spending	% of GDP	5.9	-	-	-
Public health spending	% of GDP	4.5	4.4	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.5	1.6	1.5	1.6

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The situation regarding the functioning of the market economy is ambivalent. The legal framework for the functioning of the market economy is relatively well defined by law and the Commission for the Defense and Promotion of Competition (CDPC), both established in 2005. However, competition is affected by bureaucratic obstacles and a lack of administrative capacity in the public administration. The government maintains price controls for basic food items along with water, telecommunications and port services.

Market-based competition

5

'06 '18 '10

5

1

The informal sector is very large (with about 73.4% of non-agricultural employment, according to ILO data for 2013).

According to the World Bank's 2017 Doing Business Report, Honduras ranked 105 out of 190 countries for ease of doing business, which is an improvement compared to 2012 (128 out of 183 economies) but stagnating in recent years. According to the Global Competitiveness Report 2016-2017, the country ranked 88 out of 138 economies, the same rank (out of 140) as in the 2015-2016 report.

Some basic preconditions for the effective functioning of a market economy, such as the protection of small investors or guaranteeing a reliable supply of electricity are still fragile. Hence, the difficulties of the Honduran market economy consist of a combination of institutional weaknesses and poor infrastructure.

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.

In 2015, the National Congress approved the Prevention Against Money Laundering Act (*Ley Contra el Lavado de Activos*) which increased state oversight on financial transactions. However, state capacity to enforce this law is weak both for administrative and political reasons.

Anti-monopoly rules do exist and are in theory supervised by the Commission for the Defense and Promotion of Competition (CDPC). Antitrust law is ruled by Legislative Decree 357-2005 published in 2006 and by internal resolutions of the Antitrust Commission.

However, the rules are not consistently enforced. Family allegiances and coalitions of interest groups dominate the economy in Honduras' different regions, and exercise strong influence over the regulatory framework set by the government at national, regional and local level. Crucial rules are not consistently enforced wherever and whenever it suits particular interests of the political and economic elites of the country. In that sense, they reflect a pattern of conditions that one can see in virtually every sphere of Honduran society and political life. Corruption contributes strongly to this overall picture.

According to the Global Competitiveness Report 2016-2017, Honduras ranked 87 out of 138 economies in effectiveness of anti-monopoly policy with a score of 3.5 out of 7.0, and 93 out of 138 economies in the extent of market dominance with a score of 3.4 out of 7.0.

Anti-monopoly
policy

6

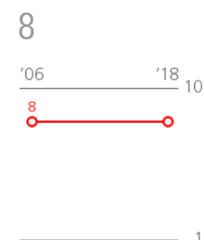
'06 '18 10



1

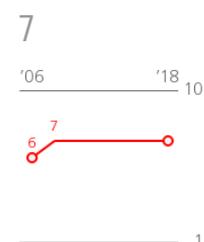
According to the WTO, Honduras has a relatively open trade regime and is not using anti-dumping and countervailing measures. However, applied tariff rates for a few products remained above bound rates. According to the WTO, efforts have been made to modernize and streamline customs procedures through the implementation of a Single Window, the submission of customs declarations for exports in electronic format and by engaging in a trade facilitation initiative at the regional level. The United States continued to be Honduras' main trading partner. Honduras has free trade agreements with the United States and the Dominican Republic (CAFTA-DR), Mexico, Chile, Colombia and Taiwan. The country is also a member of Central American Integration System which includes a common market. The implementation of these free trade agreements has led to the modernization and liberalization of Honduras's trade and investment regimes. The Canada-Honduras Free Trade Agreement and parallel agreements on labor and environmental cooperation entered into force on 1 October 2014. In June 2012, Honduras and other SICA members signed a comprehensive association agreement, including a trade component, with the European Union.

Liberalization of foreign trade



The Honduran banking system, whose stability was considered rather insecure in 2003 has undergone important reforms since then and is nowadays rather well developed and relatively stable, though deficiencies remain. Among other measures, the Banking and Insurance Commission (Comisión Nacional de Bancos y Seguros, CNBS), which is responsible for the control and supervision of the financial sector, has increasingly strengthened its supervisory capacity. The most recent 2015 Basel Implementation Survey by the Financial Stability Institute has listed Honduras as having the Basel II and III final rules “in force.”

Banking system



As of September 30, 2016, there were 15 commercial banks, nine of which were foreign-owned, 12 insurance companies, 10 finance companies and seven brokerage houses operating in Honduras. The banking sector represented about 78% of total assets of the financial sector by the end of 2015, with the three biggest banks accounting for around 50% of the sector's total assets. Both the capital to asset ratio (10.6% in 2016) and the level of non-performing loans (8.7% in 2003 and 3.8% in 2016) improved considerably, suggesting that banks are rather well capitalized.

A 2016 IMF report, while stating that vulnerabilities in the Honduran banking system were relatively low, noted that important challenges remain. Among these challenges are risks posed by credit concentration, which require stricter monitoring and regulatory compliance; a relatively high dollarization (about 30% of deposits and 33% of loans are denominated in U.S. dollar, with about 49% of foreign currency credit going to unhedged borrowers); and household indebtedness, which rose to 19% of GDP in 2015 from 15% in 2011. According to the report, increased loans to households could be a risky strategy given the long-standing anemic employment creation rate in Honduras.

In addition, potential instability could also come from criminal investigations into owners of banks, such as occurred with the Rosenthal family, and links between the financial sector and international organized crime.

8 | Currency and Price Stability

Controlling inflation and an appropriate foreign exchange policy are recognized goals of economic policy, but have not been consistent over time and do not have an adequate institutional framework. The central bank is largely independent.

The inflation rate in December 2015 was 2.4% (5.8% in 2014); below the lower target limit set up in the revision of the Monetary Program 2015-2016 (4.75% \pm 1.0 pp). Factors determining the low inflationary pressure include the low petroleum prices at international level, the favorable conditions for the supply of important food products and the appropriate conduct of monetary policy.

In 2015, the minimum wage was set at a monthly average of HNL 7,292.60, an increase of 6.0% compared to 2014. This was approved by a Tripartite Agreement on the Revision of the Minimum Wage for 2014-2016 by the Secretary of State for Labor and Social Security, the Honduran Council of Private Enterprises and representatives of the main labor unions.

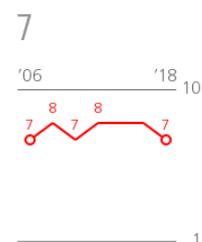
After maintaining a fixed exchange rate between the lempira and U.S. dollar since 2006, Honduras reintroduced an exchange-rate band in July 2011. Since then, the lempira has moderately appreciated against the U.S. dollar (3.4 % in 2014 and 1.6% in 2015), although it depreciated slightly in 2016.

The international reserves of the Honduran Central Bank (BCH) covered 4.6 months of the import of goods and services, thus achieving the parameter established in the Monetary Program 2015-2016. The BCH continued to use the exchange-rate system to determine the reference exchange rate, with a margin of \pm 7.0% regarding the base price.

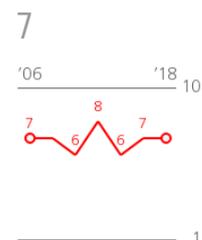
In April 2016, the parliament approved the Fiscal Responsibility Law, which promotes fiscal consolidation through a gradual reduction of the fiscal deficit to a maximum of 1% of the GDP in 2016. The application of the electronic bill, the 1.5% tax on a gross income of 10 million lempiras or more (anti-evasion measure), the creation of a tax office supervising particularly big taxpayers, the temporary closure of businesses that fail to fulfill their duties and sales tax increases (from 12% to 15% for general tax and from 15% to 18% for selective tax) have led to a substantial increase in government revenue.

The IMF highlighted in its November 2016 report the reduction in the fiscal deficit by 5.5 percentage points of GDP, while the public sector posted a moderate deficit of 1% of GDP in 2015. The primary balance moved to a surplus, implying a fiscal

Anti-inflation /
forex policy



Macro stability



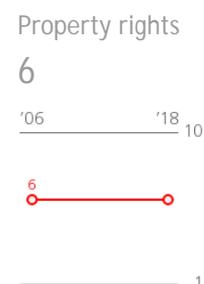
adjustment of 6.5 percentage points of GDP relative to the pre-program outcome. From the perspective of the IMF, this was mainly explained by a reduction of about 5.5 percentage points of GDP in spending since 2013, chiefly in the wage bill and in the purchases of goods and services. With this result, the public sector debt reached 41% of GDP. During the first semester of 2016, the public sector posted a surplus of 1.5% of GDP, 0.5 percentage points higher relative to the same period of 2015.

However, by substituting the Executive Directorate of Revenue (Dirección Ejecutiva de Ingresos, DEI) with the so-called System of Tax Administration (Sistema de Administración de Rentas, SAR), the executive has weakened the tax administration for political purposes. By reforming the tax code for the purpose of benefiting traditional business sectors, the executive promoted fiscal evasion during the election year. This stands in contrast to its fiscal policy prioritizing savings and it affects the fiscal income through political clientelism.

9 | Private Property

Honduran legislation recognizes private property rights to a satisfactory degree. The Chamber of Commerce and Industry of Tegucigalpa (CCIT) manages the national property registry. Honduras' secured transactions law gives a concession to the CCIT to administer the registry. The investment law and the constitution limit foreign ownership only for those businesses which are explicitly reserved for Honduran nationals. Another restriction on domestic property owned by foreign nationals is imposed on companies benefiting from the law on agrarian reform, which must have majority ownership by Honduran citizens. The law on agrarian reform allows for expropriation of land for the purpose of passing it on to destitute persons and peasants that do not own land.

The existence of land titles in Honduras is weak with 80% of private land lacking titles or proper registration. Corruption linked to the sale of land is very common. Despite some improvements, the system of agrarian property registration is weak. Lawsuits concerning the enforcement of business contracts last on average 30 months. Local power structures are able to manipulate the justice system in a number of ways. These shortcomings are one causal factor for (the sometimes violent) disputes over land rights, such as the conflict between large-scale landowners and peasants in the Bajo Aguán province. The protection of intellectual property rights is under the jurisdiction of the Honduran Property Institute (IP). The General Directorate of Intellectual Property (DIGEPIH) division handles the registration of patents, trademarks and copyrights, as well as any complaints regarding infringements.



Private companies are viewed institutionally as important engines of economic production and are given legal safeguards. However, the concentration of market power is tolerated and part of the operating system of the country due to the close links between the country's political and economic elites. Investors have the right to freely invest in companies at market prices. Private and public companies compete under equal conditions regarding access to markets, credit and other business operations.

The Hernández administration has made progress in privatizing state monopolies. Sectors that are strategically important for the Honduran economy that used to be under the control of the Honduran state are being privatized or part-privatized. These include telecommunication (HONDUTEL), electric energy (ENEE), water services (SANAA) and the National Harbor Company (ENP). HONDUTEL's legal monopoly has been eroded through a gradual privatization process. The majority of electric energy production is now in private hands, causing a decline in the importance and operational efficiency of ENEE. During the current administration, personnel costs decreased and, in view of low fuel prices, debts could be consolidated. In 2014, the parliament approved more than 80 contracts between ENEE and private companies, which had not been implemented yet. The water service is very decentralized in Honduras, thus allowing municipalities to grant concessions to private companies. The second largest city, San Pedro Sula, has guaranteed concessions for 30 years. In contrast, Tegucigalpa, the capital, has a state monopoly on water and sanitary services.

10 | Welfare Regime

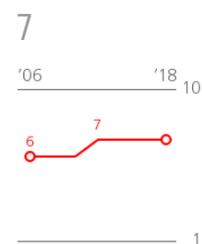
Social safety nets and public programs aimed at reducing poverty exist, but are very limited and generally insufficient.

Most 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. Less than 2% of agricultural workers and 7% of construction workers were covered.

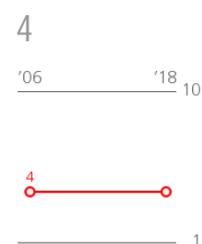
Even in the remotest regions of Honduras, there is access to banking services, which are a means of processing contributions to and payments from pension funds. For health care coverage, there are usually rural clinics that can provide first level health care coverage and can refer patients to larger units in urban centers for more complex treatments. Part of the reason why there are limited resources is because social security and public health care services cover even the most sophisticated services.

Several social programs and institutions have been established, such as the Honduran Fund for Social Investment (Fundo Hondureño de Inversión Social, FHIS; created in

Private enterprise



Social safety nets



1999), the Poverty Reduction Strategy (approved in 2001), the Solidarity Network (Red Solidaria; created in 2008), and the Bonus Ten Thousand (Bono Diez Mil) initiative created by the Lobo government. The last-named stemmed from a PN election campaign promise and consists in the assignment of conditional cash transfers (“bonuses” of 10,000 lempiras, approx. \$500) to households living in extreme poverty, particularly in rural areas. The Hernández government created new programs to complement and integrate some existing measures, above all the Vida Mejor program, which aims to improve living conditions for the 800,000 poorest families.

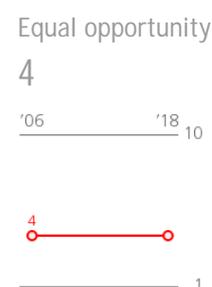
However, the various programs and initiatives are often underfunded and poorly administered; their effectiveness is impaired by corruption and clientelism in distribution processes. Notwithstanding, the government intends to keep spending in the key social programs at 1.6% of GDP in order to maintain or even expand their reach.

Overall, social policies and poverty reduction efforts run by the Honduran state, as well as those of non-governmental organizations and foreign donors, have not significantly reduced poverty or the exposure of large sections of the population to social risk. In fact, by some measures, poverty has increased since the military coup of 2009. Without the periodic payments (remittances) from expatriate citizens, the social situation would be far worse. Remittances totaled \$2.9 billion in 2012, \$3.1 billion in 2013, and an estimated \$3.3 billion in 2014; this is equivalent to almost one-fifth of the country’s GDP.

In order to encourage the political participation of women under equal conditions, the National Institute of Women (Instituto Nacional de la Mujer, INAM), the Commission on Equality of Gender of the National Congress (Comisión de Equidad de Género del Congreso Nacional), representatives of the Women’s Movement of Honduras (Movimiento de Mujeres en Honduras) and leaders of several political parties demanded the Supreme Electoral Court (TSE) pass a Regulation of Equality (Reglamento de Paridad) in line with article 105-A of the Electoral Law (LEOP), including a mechanism of alternation that guarantees a 50/50 representation of women and men. Since 2000, Honduras has developed several important legislative reforms regarding the political rights of women, namely the Law of Equal Opportunities and the Law on Elections and Political Organizations, which includes a minimum 30% quota for the participation of women in every publicly elected institution. Due to the LEOP reforms of 2012, the quota increased to 40% for the 2013 elections and will increase to 50% for the 2017 elections.

The National Statistics Institute, INE, reported an illiteracy rate of 11.0% among all over 15-year-olds (rising to 17.2% in rural areas) in 2016.

However, despite these important legislative advances, their implementation remains patchy at best while a strong cultural resistance to equal opportunities persists in



society. If anything, this situation is worse for ethnic minorities and indigenous people. There is no doubt that the Honduran state has made significant advances in enshrining gender equality within the legislative framework of the country. As so often, however, there is lack of capacity to enforce these laws across time and space, among other reasons because there continues to be resistance to equality of sexes in parts of society as well as from institutional actors such as the Catholic Church. For indigenous people of sexual minorities, the situation is, if anything, worse.

11 | Economic Performance

Honduras' economic performance has been slightly positive but hampered by some imbalances.

GDP growth was 3.5% in 2016 and 3.6% in 2015, after 3.1% in 2014 and 2.8% in 2013. Meanwhile, GDP growth per capita was 2.1% in 2016 and 2.2% in 2015. Economic growth profited from the rise in exports and remittances due to a growing U.S. economy, the strong performance of the coffee sector and the low international oil prices, which has decreased the import bill and reduced the losses recorded by the National Electric Power Company (ENEE). The positive economic performance was also due to the dynamism of the financial, communications, manufacturing and agriculture sectors. Private investment was also important in growing and sustaining economic activity, as it supplied additional resources for consumption and investment.

The fiscal balance has improved since 2013. The fiscal deficit was reduced from 7.9% of GDP in 2013, to 4.4% of GDP in 2014, to 3.0% of GDP in 2015 and to 3.2% of GDP in 2016. This reduction reflects the fiscal consolidation process that the government has committed to under the arrangement signed with the International Monetary Fund (IMF) in December 2014. The primary balance even turned near to zero with -0.6% in 2015 and -0.3% in 2016 (down from -5.8% in 2013). The reduction in the oil import bill and the sharp increase in remittances has also helped to cut the current account deficit from 9.6% of GDP in 2013 to 7.4% of GDP in 2014, 6.3% in 2015 and an estimated 5.9% in 2016. Inflation has remained low at 2.4% in 2015 and 2.9% in 2016, below the lower limit of the central bank's target range of 3.75% to 5.75%.

The national employment rate rose from 53.1% to 54.0% in 2015, but an even greater increase in labor market participation pushed the unemployment rate up to 7.5% in 2014 and 8.8% in 2015. Employment issues worsened in 2015, when the share of people facing employment problems increased substantially. In 2014, the share of people facing employment difficulties accounted for 45.5%, whereas in 2015 it accounted for 62.5%. Underemployment increased strongly by 539,360 people, an

Output strength

6



increase from 13.4% to more than 50% of the labor force. Youth unemployment stood at 12.4% in 2015, whereas in 2014 it accounted for 8.5%.

There is a considerable discrepancy between the macroeconomic data, which is relatively good, and the experience of large numbers of people who are effectively excluded from the formal labor market.

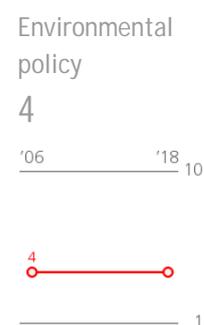
12 | Sustainability

Compared to other countries in the region, such as Costa Rica, environmental awareness is greatly underdeveloped both among state officials and within society as a whole. Instead, environmental concerns receive only sporadic consideration and are often subordinated to growth efforts. The state's mining and energy policies rarely take ecological considerations into account, as plans to build hydroelectric dams in tropical regions clearly demonstrate. Public protests against such plans are not only ignored but are often met with violence either directed or tolerated by the state.

Honduras is extremely vulnerable to extreme weather conditions, including droughts, which are exacerbated by the effects of the El Niño phenomenon that go beyond the loss of food and a decrease in families' means of subsistence. Among the causes of environmental vulnerability are the effects of climate change, the inappropriate use of natural resources (soil, water and plants), inappropriate agricultural practices (e.g., burning) and the irresponsible use of chemical products.

At least on paper, Honduras has committed itself to the majority of international agreements, especially those concerning climate change, biodiversity, desertification and droughts. In June 2010, the government created the National Direction of Climate Change in the Secretary of Natural Resources and Environment (SERNA) and elaborated a National Strategy for Climate Change. This strategy is part of the mid- and long-term objectives of Honduras formulated in the Plan of the Nation (2010-2022) and the Vision of the Country (2010-2038).

With the help of Global Environmental Fund (GEF) funds, Honduras updates its National Strategy of Biodiversity and the National Plan of the Fight against Desertification and Droughts. With the support of the FAO, the government has also elaborated its Third Communication of Climate Change, and the request for support in the agricultural and forest sector (LULUCF). Together with U.N. agencies (e.g., UNDP and FAO) and means of the World Bank's Forest Carbon Partnership Facility (FCPF) and the UN-REDD, Honduras is setting up the National Strategy for the Reduction of Emissions caused by Deforestation and Deterioration of Forests (REDD+). In practice, however, the government's actual commitment to these environmental initiatives is questionable.



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 (5.9% of GDP, mainly due to higher teacher salaries), the output of the education system has only slightly improved. According to World Development Indicators, the national literacy rate was 85.4% in 2013, in the region only ahead of Guatemala, Nicaragua and Haiti. According to World Bank data, gross enrollment in primary school education was 109.1%, in secondary education 68.4% and 21.2% in tertiary education.

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

Secondary education in Honduras has made slight progress over recent years. Between 2012 and 2016, the number of high school graduates increased from 45,000 to 70,000 across the country. Curricular reforms at secondary level have, theoretically, opened more possibilities for young people. In 2016, the Honduran state universalized high school education at the level of municipalities. In practice, each municipality has at least one high school. In addition, 60 new high schools were incorporated into the public education system, while a similar number oriented toward rural areas and technical education is foreseen for 2017. The fundamental law of education (*Ley Fundamental de Educación*) provides room for Superior Non-University Technical Formation (*Formación Técnica Superior No Universitaria*), which can be offered by the Department of Education. These opportunities were already used to initiate a project supported by France, which benefits the Instituto Triunfo de la Cruz in the city of Tela along Honduras' Atlantic coast.

Education policy /
R&D

3

'06 _____ '18 10

3

_____ 1

Governance

I. Level of Difficulty

The main structural constraints are an unbalanced economy, a poorly trained labor force and a highly unequal society. Policies rarely promote the betterment of society as a whole and cannot be scaled across all levels of society in any case.

In addition, informal social structures are embedded in the formal political and economic system. Clientelism, particularism and nepotism permeate nearly all formal institutions.

The influence of traditional groups is stronger in rural areas than in cities. In many cases the informal power structures mix with private forces involved in organized crime which has a detrimental impact on institutions. Society is losing trust in state structures because of impunity and the lack of transparency.

Violence, access to weapons, the presence of the Maras and the increasing pressure of the international drug trade, which has entered the institutional and political sphere, have increased the fragility of public institutions. Acts of intimidation and political interference by unidentified forces are increasing.

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 are also significant structural constraints to the current leadership's performance. Additionally, Honduras' vulnerability to external shocks, particularly in the form of U.S. trade and immigration policies, considerably reduces the political leaders' influence on economic and political outcomes.

Although there haven't been any large-scale natural disasters in the last five years, Honduras's geography means that the risk of natural disasters remains high.

There are some traditions of civil society in Honduras since the general strike of Banana workers 1954. 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. According to human rights correspondents of the United

Structural
constraints

7



1

Civil society
traditions

6

Nations, attacks on civil society organizations in Honduras have intensified since the military coup of 2009. People's affiliation to organizations with political or economic objectives that contradict or challenge the interests of the government and associated groups in power is dangerous in Honduras. These affiliations include advocacy for human rights, peasants and indigenous people. This has led to a deterioration in the country's social fabric. In the context of this serious crisis of human rights in Honduras, the United Nations Special Rapporteur on the situation of human rights defenders, Michel Forst, and his equivalent at the Inter-American Commission on Human Rights (IACHR), José de Jesús Orozco, confirmed in August 2016 that Honduras has become one of the most dangerous countries in the world for human rights defenders.

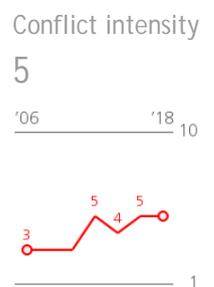
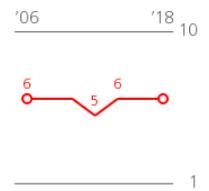
The ethnic diversity in Honduras is not as pronounced as in neighboring Guatemala and there are no severe ethnic conflicts. Some minorities complain about abuses and discrimination. There are frequent protests by indigenous organizations, the LGBT community as well as other civil society groups regarding violence and human rights violations directed against them. The lack of a separation of powers (which the current president has accelerated by strongly politicizing the judiciary), militarization of security policy, violation of the rights to information and freedom of expression, a culture of impunity, the continued rise of organized crime (especially drug-trafficking and gangs) and the structurally ingrained nature of criminal violence contribute to the country's fragility and security problems.

Violence in Honduras is structural and criminal, rather than of a military or ideological nature. It is noticeable that the victims of violence are primarily found in the poorer sections of society, while the sense of fear of violence is a country-wide phenomenon. Violence is perpetrated both by criminal groups (both local and international) as well as agents of the state, such as the police and the military. This contributes to deep mistrust between the state and its citizens.

II. Governance Performance

14 | Steering Capability

After a relatively promising period, doubts about the government's way of setting priorities have increased recently. The Secretary of General Coordination of the Government (Secretaría de Coordinación General de Gobierno, SCGG), which was set up on February 3, 2014, has a central role in the coordination of government. The SCGC is in charge of the general coordination of public administration. This includes the modernization of the state with the purpose of making it more effective, efficient, equitable and transparent through strategic planning, coordination of policy



Question
Score

Prioritization
6

formulation, the alignment of institutional plans, assignment of resources and the monitoring of management. The SCGG consists of the Presidential Directorate of Strategic Planning, Budget, Public Investment and External Cooperation, the Presidential Directorate of Results Management, the Presidential Directorate of Transparency and State Modernization and the Millennium Account Program (Programa de la Cuenta del Milenio; in coordination with INSEP). These presidential directorates coordinate all secretaries and state institutions. However, critics suggest this is part of a long-term strategy to centralize power in and around the president's office at the expense of other parts of the government and the state.

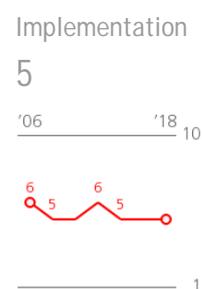
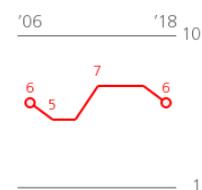
As from the beginning, the priorities of the macroeconomic policy were determined by the agreement with the IMF, which was reinforced by a decline in fuel prices. This helped to reduce the debt burden (cancelling the subsidies) and reducing inflation. The priorities at social level were, however, substituted by welfare measures once President Hernández decided to make his re-election his leading priority.

The purpose of changing the constitution to allow for re-elections was achieved at the cost of weakening the institutions and diverting attention to short-term goals in order to get political support for the re-election.

Although the government introduced a series of initiatives through the SCGG, it could not satisfactorily implement several plans and initiatives proposed at the beginning of the administration. Short-term thinking prevails in policy-making and the reach of the state is not strong enough in many parts of the country to make a policy "stick" in the medium- to long-term.

To date, the government's performance has not gone beyond training initiatives for personnel and the attempt to link some institutions with scant implementation results. There is neither an effective monitoring system nor an evaluation of results, although a result-oriented management has been promoted by the government in order to improve the performance of public institutions and the effectiveness use of public resources. For now, there are only reports on the advances of the government during its first 100 days. An evaluation of the results of the different ministries and public entities is still missing.

Therefore, it is only possible to make assumptions from the observed impacts. Concerning the topic of violence, only small improvements can be observed, although a strong militarization of security policy has been initiated. With regard to education there have been some improvements, however, the stated objectives have not been achieved yet. When it comes to the process of privatization in the electricity sector, the government lost its orientation due to the very strong influence of stakeholders.



As with its predecessors, the Hernández government did not demonstrate a general ability to learn with respect to policy-making. Despite some efforts to re-organize the administration (such as monitoring and consultancy), its flexibility is still somewhat limited. Short-termism is endemic in Honduran society and policy-making is no exception in this regard. The country lacks an institutional and societal memory to learn from past mistakes which are promptly repeated. Overall, the Hernández administration has not offered solutions capable of promoting a new form of policy-making. Instead, the governing PN often employs traditional patterns and procedures in public administration and when developing its political strategies. Though the president belongs to the same party as his predecessor, he has appointed his most loyal allies to key positions and dismissed personnel with experience in public administration, which has led to less effective and efficient governance.

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

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

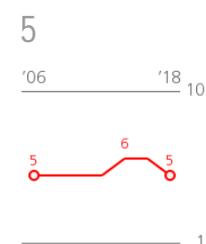
15 | Resource Efficiency

The government makes efficient use of only some of the available human, financial and organizational resources.

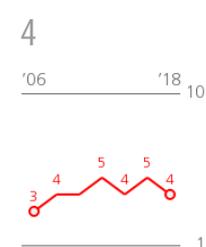
The Tribunal Superior de Cuentas (TSC) is responsible for monitoring the management of state resources, state budget and public debt. It was created in 2001 by merging the functions of the Contraloría General and the Dirección de Provisión Administrativa. The TSC is supposed to be independent and able to suggest reforms. However, the excessive politicization of the administration of past governments, which impedes the efficient use of administrative, financial and personnel resources, has continued during the Hernández administration.

The executive’s influence on public institutions has been reinforced with negative consequences. An extreme example was the distribution of flyers using military helicopters in order to promote the president’s re-election. One criterion for the recruitment of public administration staff is the adherence to the political project of re-election. Although in some sections technological modernization and acceleration of processes can be observed, the government generally does not use its human resources efficiently. It is usually militant cadres of the PN that participate in the capacity-building programs at all levels of public administration. There is no effective

Policy learning



Efficient use of assets



system for creating a permanent, nonpartisan staff in the public administration. Staff selection is determined primarily according to political 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.

While there have been efforts to reduce the central government deficit, it is still considerable at about 3% of GDP.

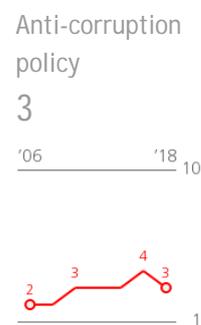
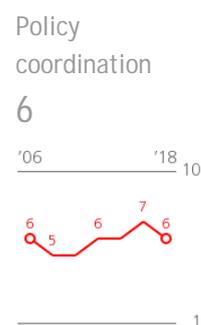
The Hernández government has maintained a high level of coordination and strong centralization, while trying to achieve its conflicting objectives. The General Coordination of the Government (SCGG) is the secretariat in charge of the above-mentioned task. The secretariat’s goal is the general coordination of policies and the public administration in order to contribute to the nation’s welfare via the reform and modernization of the state, by making it more effective, efficient, equitable and transparent. For that purpose, the secretariat is tasked with strategic planning, the coordination of policy formulation, the alignment of institutional plans, resource assignation, and the supervision of implementation. After an initial period of enthusiasm, the secretariat did not succeed in fulfilling its role with the required intensity in order to solve conflicts of interest efficiently and strengthen public administration.

With this centralization as well as the dismissal of many career civil servants, there has been a strong politicization of the state bureaucracy and judiciary. This has led to less infighting, but also to a much narrower base for policy-making, meaning that many actors are shut out and only narrow interests are taken into account when policy is being made.

Instead of eliminating duplication of tasks, new institutions were created in order to solve problems that were being dealt with by other agencies. The result has led to the further duplication of tasks and turf-wars.

Social and political conditions which bring about and sustain corruption remain largely unchanged. Some measures against corruption have been undertaken, following increasing discontent by the population. Nevertheless, corruption seems to have increased in the second half of the current administration.

The Third Action Plan of Open Government for 2016-2018, supported by the European Union and the Central American Bank of Economic Integration (CABEI), seeks to encourage public participation in the implementation of public policies through innovation and new technologies. The idea is to set up an Inter-Agency Anti-Corruption Table (Mesa Interagencial Anticorrupción, MIA) that enables better and more integrated communication for the identification of corruption in the respective institutions. It is not clear yet to what extent this new institution will take over the



attributions of the National Anti-Corruption Council (CNA), which has not been effective in the fight against corruption.

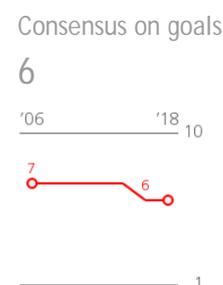
In April 2016, after an agreement between the Organization of American States and the government, the Mission of Support Against the Corruption and the Impunity in Honduras (Misión de Apoyo Contra la Corrupción y la Impunidad en Honduras, MACCIH) began to operate. The mandate of the commission includes the selection and supervision of a group of judges, attorneys, police officers and forensic scientists to investigate cases of corruption. Initially, the ASJ – the chapter of Transparency International (TI) in Honduras – promoted the creation of specialized courts in cases of corruption, so that the judicial system can count on sufficient resources to sanction those guilty of corruption. The specialization of judges in the field of corruption and extortion, apart from being a new process in Honduras, is one of the most visible developments in the country and is supported by civil society through the ASJ.

The first criticism by MACCIH concerning acts of corruption were rejected by government agencies as unacceptable interference. The cause of discomfort was a series of public declarations made by a spokesman of MACCIH about several specific cases of corruption, including the liberation of people involved in the corruption activities of the IHSS. The top executive of the PL, Villeda Bermudes, said that the MACCIH is now “blind, dumb and deaf when it comes to political corruption.”

Many shortcomings of public administration that facilitate corruption came to light in many different cases, such the misuse of public resources, abuse of power, nepotism and cronyism. At all levels, access to public office is not based on the capacity or merits of the candidate but on that person’s political affiliation with the ruling party. This leads to a high turnover of staff and its replacement by people who have neither the capacity nor the ability to assume managerial functions.

16 | Consensus-Building

The goal of democracy has been accepted by almost all relevant political actors, publicly at least. There is, however, significant controversy over the re-election issue. The re-election of the president has violated the country’s democratic procedures. As such, the Hernández government has partially undermined the consensus in defense of the democratic institutional order. The president’s pretensions are supported only by the PN and some parts of the PL, which is not sufficient for a majority consensus and can only be imposed by coercion or bribery. The strategy of the Hernández administration has combined compromise (instead of consensus) with authoritarian leadership. This has contributed to the process of fragmentation, which has affected all opposition parties, including the PL, the only serious counterweight to the PN. The goal of preventing Hernández’s re-election has been strong enough to unite all



opposition parties and everything depends on who will win the leadership contest for the PL in the upcoming internal elections.

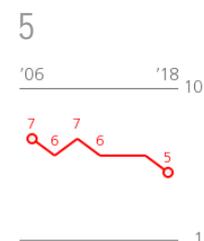
The goal of the development of a market-based economy has been accepted by almost all relevant political actors. A notable exception is LIBRE, the second largest group in parliament, which advocates a form of “21st century socialism” and is thus somewhat ambiguous in terms of the BTI’s goals of economic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

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

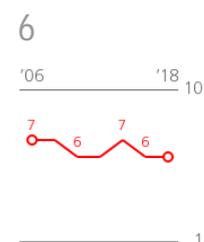
Within the formal political system, there are no openly anti-democratic actors. All political parties and other powerful players (the military, business associations, churches, civil society organizations) endorse democratic transformation, at least publicly. On the one hand, there are parties which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

The main cleavage in Honduras is the split between social classes. During the period under review, political leaders mostly succeeded in preventing a worsening of this cleavage-based conflict. The predominant type of conflict according to the classification of the Sub-Secretariat of Human Rights and Justice are socioeconomic and sociopolitical conflicts, sometimes also involving ethnic groups such as the Misquitos in La Mosquitia. Conflicts, especially those in the countryside, sometimes turn violent. The land disputes in the Bajo Aguán region were somewhat defused after the Lobo government purchased disputed territory from large landowners and distributed parcels to landless peasants on a loan basis. However, land tensions – in the Bajo Aguán, as well as in other regions – continued and seem to be almost inevitable. As the National Agrarian Institute itself acknowledged, some 300,000 families across the country are seeking smallholdings. As a speaker of the Unified

Anti-democratic actors



Cleavage / conflict management



Campesino Movement of Aguán (MUCA) declared in 2013, the solutions of the Lobo government have only been partial and not all groups have benefited from them, leading to an increase in latent conflicts in departments near Bajo Aguán. These add to further unresolved conflicts, such as those around mining activities, opposed by groups such as the indígena organization COPINH. The Hernández government promoted further regularization of land titles, benefiting about 60,000 people, according to official data. The government also engaged in conflict management to restore social peace through a dialog with campesino organizations, women's organizations and indigenous and Afro-Honduran communities. However, in contrast, violence against land-reform and environmental activists is often tolerated by the government and rarely fully investigated.

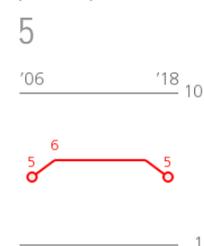
The civil society participation in the formulation and execution of strategic objectives has generally deteriorated under the Hernández administration. Yet, the beginning of the administration was accompanied by mobilizations against corruption, which led to certain concessions by the government. Initially, the Asociación para una Sociedad más Justa (ASJ) – the chapter of Transparency International (TI) in Honduras – promoted the appointment of judges specialized in corruption, so that the judicial system could count on sufficient resources for sanctioning corrupt officials and politicians. In 2016, this initiative was supported through the creation of MACCIH, which is supported by the OAS.

At a formal level, civil society participation is almost always tightly controlled, as was shown by the roundtable initiated after the corruption scandal in the health care system. However, the wave of protests, which this scandal provoked, did have some impact on government policy, as it facilitated the establishment of an anti-corruption commission. While the powers of this commission are limited and its independence questionable, it is doubtful that anything would have been done without the public pressure expressed in those demonstrations.

The assassinations of members of the Unified Peasant Movement of Aguán (Movimiento Unificado Campesino del Aguán, MUCA) in Bajo Aguán and the attacks against members of the Civic Council of People's and Indigenous Organizations of Honduras (Consejo Cívico de Organizaciones Populares e Indígenas de Honduras, COPINH) show the risk human rights defenders face in Honduras. Civil society faces intimidation, threats, and repression of the freedom of assembly and expression when powerful groups feel threatened.

The political leadership has not consistently recognized the necessity of addressing historic injustices. Dealing with those injustices, particularly human rights abuses perpetrated by the military and the secret police in the 1980s and early 1990s (186 Hondurans were “disappeared” by the Honduran security forces, mostly during the 1980s), became part of the political agenda in late 2008, shortly before Zelaya's

Civil society participation



Reconciliation

4

ouster. Neither Micheletti, nor Lobo or Hernández revived the initiative, and the topic has effectively disappeared from the political agenda

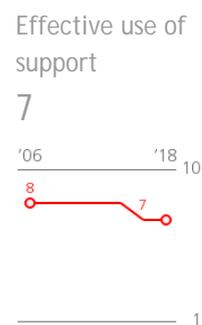
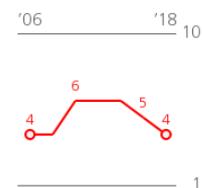
Until today, acts of violence against leaders of civil society organizations are routinely publicly denounced and action is promised. Yet, most crimes remain unpunished. In 2016, the Inter-American Commission on Human Rights (IACHR) described Honduras as “one of the most dangerous countries for human rights defenders.” Threats, attacks and assassinations against journalists, lawyers and human rights defenders are common. Almost all assassinations of journalists remain unresolved. In some cases of assassination or repression, members of the security forces were the perpetrators. Investigations into abuses carried out by the police have been impaired by inefficiency and corruption, as well as a lack of political will.

17 | International Cooperation

The political leadership uses international assistance for its own development agenda, but falters in devising a consistent long-term strategy capable of integrating this support effectively. The government is primarily oriented toward preserving macroeconomic stability, while improving conditions for sustainable inclusive growth clearly takes a backseat. The Directorate of International Management and Cooperation, which is part of the Secretary of Foreign Relations and International Cooperation (SRECI), is responsible for international cooperation. The directorate’s purpose is to obtain resources and implement new strategies for the international cooperation. With the support of some cooperation agencies, the government has created a Platform of External Cooperation Management (Plataforma de Gestión de Cooperación Externa, PGC), an electronic governance tool through which Honduras puts into effect and makes transparent all cooperation efforts dedicated to development projects and the achievement of sustainable development objectives. The government is a signatory of the Global Alliance for the Effective Development Cooperation.

In January 2016, the OAS signed an agreement with the Honduran government for the creation of the Mission of Support Against the Corruption and the Impunity in Honduras (MACCIH). The U.S. congress contributed \$98.3 million in bilateral assistance for 2016, of which 75% was contingent on the government’s progress on human rights issues, in the fight against corruption and the strengthening of public institutions. In June 2016, Honduras signed an agreement with the United Nations High Commissioner for Refugees (UNHCR) to open an UNHCR office in Honduras, which protects persons that have been displaced within the country due to violence as well as refugees that have been sent back from the United States and Mexico.

However, the Honduran government has also been criticized for the way it uses international aid to entrench ineffective and corrupt structures, and advance particular interests of small groups. In addition, relative to the amount of aid received by the



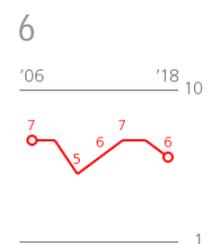
country, progress on dealing with issues of poverty, the unequal distribution of wealth, violence and corruption has been very limited. Critics have argued that money obtained is routinely diverted to other purposes and that there are few to no mechanisms in place to control what happens to these resources. Cooperation with countries and international organizations is also used, according to this argument, to provide political legitimacy to the incumbent regime. A Global Witness Report in January 2017 stated that aid money was used to fund illegally imposed projects, develop the policy and infrastructure these projects required, and strengthen police and military institutions that were attacking civil society activists (e.g., land-reform and environmental campaigners). Corruption and abuses surrounding these projects cause destruction, displacement and death of precisely those communities that could contribute to a more sustainable and prosperous future.

The Hernández government has gained credibility on the international level in important aspects of cooperation. The president actively participated in the climate change negotiations in Paris and in the Global Partnership for Effective Development Cooperation in Nairobi, Kenya. On the financial level, the fulfillment of the agreement with the IMF has also increased the president's credibility. In July 2016, Standard & Poor's assessed the perspective of Honduras as positive and stable, and rated its long- and short-term sovereign qualifications as B+ and B, respectively. Serious credibility problems exist regarding human rights, corruption and security. The majority of recognized rating agencies, including Transparency International, the United Nations and Human Rights Watch have criticized the Honduran government for not fulfilling its international commitments concerning these aspects.

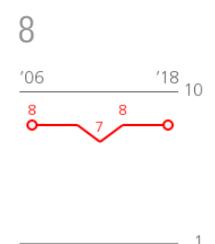
Honduras has maintained a good profile in its regional cooperation, especially with its neighbors Guatemala and El Salvador, because they face similar challenges (e.g., violence, migration and drug-trafficking). The three governments promote the Alliance Plan for the Prosperity of the Northern Triangle. In order to foster this plan, the U.S. congress approved two payments of \$750 million for the creation of job opportunities and the reduction of insecurity in each country.

Honduras participates actively in the OAS and is a signatory state and member of the Inter-American Court of Human Rights. Honduras is also a full member of the Community of Latin American and Caribbean States (CELAC). At the sub-regional level, Honduras enjoys full membership in the Central American Integration System (SICA) and maintains close bilateral relations with all countries on the isthmus (including Panama and Belize). The successful negotiation of an association agreement between Central America and the EU in 2012 (implemented in Honduras since 2013 – although only on a provisional basis because of pending ratification procedures in some participating countries) indicates that the SICA countries, including Honduras, have achieved the necessary level of coordination to speak as one with extra-regional counterparts. Nevertheless, political leaders in Honduras and throughout Central America show little interest in substantial sovereignty transfers to

Credibility



Regional cooperation



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. With neighboring Guatemala, Honduras in late 2014 began to negotiate a customs union which in May 2016 entered its implementation phase after the submission of the Enabling Protocol to SICA. The customs union will comprise almost 50% of the population of Central America and about 52% of domestic trade in the region.

Strategic Outlook

Considering President Juan Orlando Hernández's re-election project, the fragmentation of opposition parties and weakness of civil society, the future of Honduras' democratic transformation is uncertain. There have been efforts to increase efficiency and transparency within public administration, but the results are discouraging and there is a lack of political will to overcome the influence of informal actors on democratic institutions. Observing the actions of the current government over the last four years and in light of the uncertainty surrounding the upcoming elections, it is highly doubtful that the social conditions that sustain corruption, violence and other social problems will be addressed in any meaningful way soon. Significant segments of the country' economic and political elite have a vested interest in maintaining and securing the status quo, rather than driving reform.

Consequently, it is highly doubtful that the violence and activities of criminal gangs will be reduced in the near future. Although there is a plan of action at the regional level, there is no integrated strategy to tackle the root causes of the problem, which are associated with the poverty and vast inequalities experienced by the majority of the population. Any policy action is likely to be ineffective.

Uncertainty surrounds the upcoming 2017 presidential election. The ruling PN has positioned itself in an advantageous position, and has used private and state resources to finance its political campaign. Although more than half of the population opposes the re-election of the current president, the political system of Honduras allows for a simple majority for the presidential election. Rather than discuss alternative proposals for addressing the democratic fragility of the country, there is an incendiary dispute that is characterized by ideological divisions that lack clear programmatic content. There are a diverse range of political visions and political actors who have demonstrated little willingness to compromise for the national good. The alliance between the two new opposition parties (PAC and LIBRE) and the results of the internal PL leadership election could change the political environment in Honduras, allowing for the creation of a multiparty government for the first time in the country's recent history. A change of government of this kind would enable an improvement in the situation of human rights.

Regarding the economy, macroeconomic stability will strongly depend on the development of international oil prices and U.S. protectionist measures, which could affect Honduran exports. The stability of the financial system will also depend on the country's economic performance. In the short to medium term, the conditions for maintaining recent advances in economic transformation will be relatively favorable. While the privatization of the ENEE and the ENP have increased economic dynamism, the government must now ensure that this dynamism benefits the whole of society. The situation seems to be easier in the telecommunications sector.

Honduras needs to increase efforts in the fields of education and environment, which are crucial for further transformation. The country has shown a commitment to international cooperation,

including the framework conference on climate change and the Global Partnership for Development. However, the degree of environmental degradation and deforestation has remained high. The future of the Honduras's transformation is still very ambivalent. The main political obstacles to transformation include high levels of corruption, abuse of power and inefficiency in public administration. The strong influence of an economic elite on state decisions remains a severe obstacle for the systematic fight against violence and organized crime.