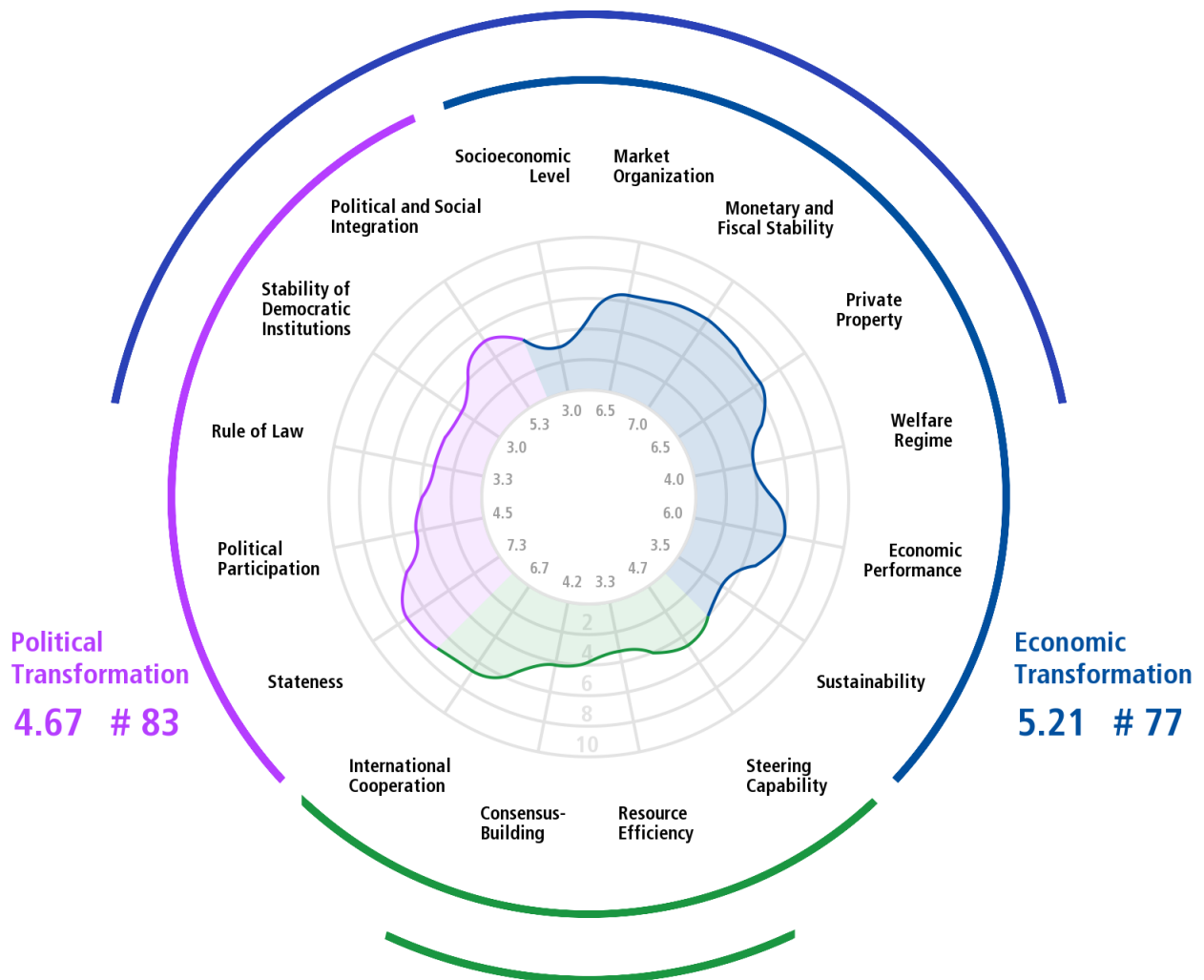


# Honduras

## Status Index

**4.94 # 86**

on 1-10 scale out of 137



**Political Transformation**  
**4.67 # 83**

**Economic Transformation**  
**5.21 # 77**

## Governance Index

**4.33 # 91**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>9.6</b>	HDI	<b>0.623</b>	GDP p.c., PPP \$	<b>5130</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.7</b>	HDI rank of 189	<b>132</b>	Gini Index	<b>50.5</b>
Life expectancy	years	<b>74.9</b>	UN Education Index	<b>0.503</b>	Poverty <sup>3</sup>	% <b>31.6</b>
Urban population	%	<b>57.1</b>	Gender inequality <sup>2</sup>	<b>0.479</b>	Aid per capita \$	<b>46.8</b>

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

On December 17, 2017, Juan Orlando Hernández was declared the winner of the presidential election after winning 42.9% of the vote, a narrow 0.5% lead over Alianza Opositora candidate Salvador Nasralla. During the vote count, with 57% of the tables processed and the candidate of the Opposition Alliance was 5% ahead of Hernández, the Supreme Electoral Tribunal (TSE) announced that one of the servers of the TSE data center was experiencing technical problems. After several hours, the server was replaced and the system was re-established. However, the trend in the count subsequently changed in favor of the official candidate who won by a margin of about 50,000 votes. The candidates of the opposition have not recognized the results. The results were questioned by both the Organization of American States (OAS), who called for new elections, and other international observers – though not Honduras’s key international partners, the United States and European Union. This muted response gave the government the necessary political cover to violently crack down on the protests that followed the election. Political polarization and post-election repression coupled with substantial corruption and violence have led to a loss of confidence in state institutions. To conclude, Honduras has said farewell to the community of democracies, though major (nominally democratic) partners continue to support the regime.

There has been a growing concentration of power in the executive branch at the expense of the legislative and judicial branches, which contributed to the re-election of President Hernández through a dubiously reasoned verdict by the Constitutional Chamber of the Supreme Court in 2015. In 2016, as a consequence of citizen pressure, the OAS began operations of the Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH) at the request of President Hernández. The obstruction of MACCIH, after concerted efforts to frustrate its practical suggestions, confirms that the government has no interest in combating corruption. High rates of poverty and unemployment, and (above all) violence drive people to emigrate, especially to the United States.

The legal framework for the functioning of the market economy is still relatively well defined, but competition is negatively affected by bureaucratic obstacles, corruption and a lack of capacity in the public administration. During the review period, the economy fared moderately well with GDP per capita growth of about 3%, while inflation remained under control. However, Honduras is still one of the poorest countries in the Western Hemisphere. Economic progress has been too small and too slow, which – together with widespread poverty – has been a major driver of emigration. The vast majority of the population does not have access to social security systems. Together with Guatemala and Haiti, Honduras continues to perform the poorest in Latin America in terms of education outcomes, despite education comprising a high proportion of government spending by Latin America standards (about 6% of GDP) and Honduras receiving substantial support through international cooperation.

Honduras receives one of the highest volumes of official development assistance (ODA) of any Latin American country. However, corruption, clientelism and patronage impede the efficient use of scarce public resources. A large part of the business community has taken control of government institutions to generate (licit and illicit) income at the expense of public resources, especially through state contracting.

The Hernández government has lost significant credibility over recent years, albeit not with the U.S. Trump administration. Though this may change if rates of migration from Honduras to the United States are not cut and Trump's threats to cut aid are realized. Widespread corruption at all levels of government, the involvement of officials and family members in international drug and arms trafficking, the failure of the MACCIH, and irregularities in the last election process have been heavily criticized nationally and internationally. Nevertheless, some still see the Hernández government as a reliable partner for international cooperation.

## History and Characteristics of Transformation

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

The 1990s also brought some important transformations in the economic sphere, though the majority of Hondurans did not share in this positive trend. The country's expansion from the production of primary (agricultural) commodities into the manufacturing or processing (*maquila*) of low-cost consumer goods, and concomitantly increasing its integration into the global market, did not foster sustainable or equitable economic development. Moreover, structural adjustment policies initiated by President Rafael Leonardo Callejas (1990–1994, PN) deepened socioeconomic inequalities. The economic growth fostered by those policies failed to compensate for cutbacks in social spending and job opportunities in the public sector.

Following the transition to a non-military government, the aftereffects of Hurricane Mitch, which devastated the country in 1998, proved to be among the most important factors in transformation. Aiming to secure maximum sustainability for the help they pledged for the recovery of the country after the hurricane, major donor countries and institutions demanded the modernization and further democratization of the country's political and economic systems. However, none of the post-hurricane governments have developed a comprehensive economic policy able to enhance the economy's competitiveness, reduce vulnerability to price changes in global markets, restructure the public sector or make the country less dependent on the remittances of emigrants (particularly emigrants to the United States). The successful negotiation of a free trade agreement with the United States (Central America Free Trade Agreement, CAFTA), which came into effect in 2006, underscored the political and economic elite's intentions to continue on the path of further internationalization of the economy. So far, the opening of Honduras to the highly competitive

economy of the United States has not fostered a more inclusive economy, which a country like Honduras, with more than half of its population living in poverty, would need. This is in large part due to the lack of agricultural development, which prevents a very considerable proportion 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, the so-called *Resistencia*, resulting in serious human and civil rights abuses. A broad range of political and judicial institutions, including the parliament and the Supreme Court, backed the ousting of Zelaya, accusing him of violating the constitution and other laws. The presidential and parliamentary elections of November 2009 proved insufficient in overcoming the crisis. Under President Lobo (2010–2014), a truth commission, consisting of prominent Honduran and foreign individuals, was formed as an effort toward national reconciliation. The final report of the commission condemned the ousting 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 2013 elections marked an end to the two-party system, which had dominated the country's politics since its beginnings as a nation-state. The PN, which holds the executive, consolidated its power although it did not gain an absolute majority in Congress. With the help of tactical alliances, especially with conservative parts of the PL, the party succeeded in changing one of the most fundamental elements of the country's modern constitution: The prohibition on the presidential re-election. This allowed President Hernández to be re-elected in 2017. However, the 2017 elections were not free and fair, which led to post-electoral violence and repression, and a further erosion of democracy and human rights.

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 contested by illegal armed groups of various kinds. There are complex connections between drug-trafficking networks, and senior representatives of the economic and political elites. In government, one can observe contradictory policies, which reveal the tensions between the state, the involvement of key state actors in corruption, and drug-trafficking networks. The intimate connections between key state actors and institutions on the one hand, and international drug-trafficking networks on the other has been revealed in recent years through the arrests of many high-profile figures from the Honduran elite. In the main, these arrests have been made by the U.S. Drug Enforcement Administration (DEA), without explicit consultation with the Hernández government. This indicates that the Honduran government has limited control over the situation and is compromised by the direct involvement of many key state actors in criminal activities.

During the first two weeks of 2019, at least 30 people died in eight massacres across various parts of the country, including the Caribbean city of Puerto Cortés in the north, the western department of Olancho and the capital city, Tegucigalpa. According to InSight Crime experts, rival gangs fighting over control of territory and micro-trafficking are responsible for the bloodshed. Barrio 18 and Mara Salvatrucha (MS13) are the two dominant gangs in Honduras. Juvenile delinquency has increased. According to the U.N. Office on Drugs and Crime (UNODC), Barrio 18 and MS13 have recruited an estimated 36,000 members in Honduras since 2010, although the exact numbers are difficult to verify. Similar to traditional mafia, these Honduran gangs extort taxi drivers and small businesses, as well as large capital companies as a means of financing themselves and exerting control. They charge a "war tax" not only in poor districts, but also in more prosperous neighborhoods.

Despite this, official figures show that there has been a reduction in violence following the dismantling of large criminal networks by the DEA and reform of the National Police. However, the reliability of the data indicating a reduction in violence is questionable. According to the Observatory of Violence at the National

Question  
Score

Monopoly on the  
use of force

6

'06 \_\_\_\_\_ '20 10

6 ————— 1

Autonomous University of Honduras, the homicide rate was 40 murders per 100,000 people in 2018, a slight decrease from 42.8 murders per 100,000 people in 2017 and significantly less than the 85.5 murders per 100,000 people in 2011. Nevertheless, this is still one of the highest homicide rates worldwide and the fourth highest in Latin America.

The nation-state is recognized and accepted by the majority of the population as legitimate. There are seven culturally differentiated indigenous peoples (Maya-Chortí, Lenca, Tolupan, Pech and Tawahka, Misquitos, Sumos and Ramas) and two Afro-Honduran (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 remain part of a systematically disadvantaged section of the population. The government created the Dirección General para el Desarrollo de los Indígenas y Afroamericanos (DINAFROH), which formulates, in consultation with indigenous peoples, the Public Policy against Racism and Racial Discrimination for the Integral Development of Indigenous and Afro-Honduran Peoples (P-PIAH).

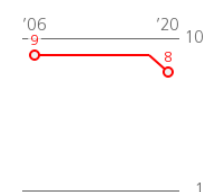
Though access to citizenship and naturalization is rather easy and not denied to particular groups, there are legal provisions that discriminate against naturalized citizens, which place naturalized citizens in a subordinate position to native born citizens (e.g., with respect to the transmission of citizenship to children by *ius sanguinis*, the extension of citizenship to foreign spouses, dual citizenship, the deprivation of citizenship on various grounds, holding political posts, entering the civil service, or becoming directors of newspapers, radio stations or TV stations).

There is no state religion and according to the constitution the Honduran state is secular (Article 77). The Catholic Church is the only legally recognized “church.” Other religious groups are accorded the status of “religious associations” with the granting of legal personality. Non-Catholic religious groups, including the Episcopal Conference of Honduras (CEH), have applied to Congress for recognition as “churches,” but continue to operate as religious associations, while awaiting a decision. De facto, the Catholic Church has recently been challenged by the emergence of evangelical groups, which (particularly in poorer communities) exert considerable social influence over the population.

The Catholic Church and some prominent Protestant evangelical associations were represented on more than a dozen government commissions. Hondurans are traditionally very religious and very receptive to ethical-religious conservative 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 victims of sexual violence have to be treated and cared. According to women’s organizations, this is due to the enormous influence of the Christian churches on government policy. In an official statement in 2014, the CEH expressed its opposition to the legalization of marketing and prescribing the Emergency Contraceptive Pill.

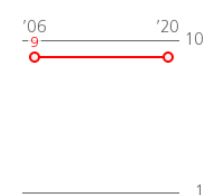
#### State identity

8



#### No interference of religious dogmas

9





Honduras's state administration has institutional and personnel weaknesses inherited from the recent past. Apart from corruption (more than 70% of management in public institutions was only possible with the payment of bribes) and the lack of transparency, public administration in Honduras is inefficient. The state is strongly "corporatist" and based on a network of personal relationships, which reach from the highest to lowest echelons of the state. This breeds and sustains corruption and does nothing to improve efficiency.

Public companies have been "hijacked" by economic power groups and trade unions, which has led them to maintain historical deficits, due to the over-recruitment of personnel with salaries much higher than the average workers in the country. Education and the level of medical assistance have been improved, including the fight against the illegal sale of medicines. Above all, the efficiency of public finances has improved under the current government compared to the previous government. Despite improvements, access to safe water, sanitation and electricity is still very poor, especially in rural areas. Most municipalities are associated in commonwealths, many of which have formed intermunicipal technical units (ICUs), which are responsible for the management of investment projects.

## 2 | Political Participation

According to the constitution, presidential elections should be held every four years by simple majority in a single round in a single national constituency. From 1982 until the 2017 elections, elections were more or less free and fair. However, the 2017 elections were not free and fair.

The run-up to the last elections in 2017 was marked by strong polarization resulting from the ruling of the Supreme Court, which found in favor of the allowing the re-election of incumbent Juan Orlando Hernández. On November 26, 2017, with a participation rate slightly lower than in 2013, Hondurans elected the president, members of the National Congress, the mayors of the country's 298 municipalities and 20 deputies of the Central American Parliament. The National Party (PN), Liberal Party (PL) and Libre selected their candidates in primary elections held in March 2017.

The political parties that participated in the electoral process are located along the entire range of the Honduran political spectrum. According to the EU Election Observation Mission (EOM), the registration of candidates was not subject to excessive or unjustified limitations. During the election campaign, there was inequality of resources and media coverage in favor of the candidate of the ruling party. The EOM reported violence against candidates and activists from different parties in seven departments, but stated that it would be difficult to determine whether some or all of these incidents – which included the murder of six activists from PN, PL and Libre – were of a political nature or not. Apart from this, the elections

Basic  
administration

6

'06 '20 10

6

1

Free and fair  
elections

5

'06 '20 10

-9 8 7 8 6 5

1

proceeded relatively peacefully and the counting took place with a strong presence of representatives of the main parties at the polling stations.

However, during the vote count – with 57% of the tables processed and the candidate of the Opposition Alliance ahead of Juan Orlando Hernández by 5% – the Supreme Electoral Tribunal (TSE) announced that one of the TSE data center servers had experienced technical problems and would have to be replaced. After several hours, the system was re-established. Subsequently, the trend in the count changed in favor of the incumbent candidate, who won with a very narrow margin of victory, 42.95% to 41.42%, about 50,000 votes, over the candidate of the Opposition Alliance.

The apparent “power outage” has never been adequately explained, nor the very sudden change of the direction in the vote count away from the main opposition candidate toward the incumbent. On December 17, 2017, the TSE declared Hernández the winner. While several governments (e.g., the United States, Canada and Mexico) recognized Hernández’s victory, the OAS spoke of widespread irregularities and doubted the validity of the official results, concluding that new elections would be necessary. In this respect, it is also note-worthy that the report of the OAS electoral observer mission was more critical in its tone than that of the European Union, which essentially accepted the explanation of a “technical fault.” According to the Electoral Integrity Project, the perceived electoral integrity of these elections is one of the world’s lowest and the third lowest in the region, only ahead of the elections in Nicaragua (2016) and Haiti (2016).

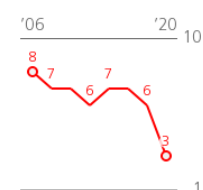
This is further underlined by the fact, as stated by the EOM, that the TSE does not reflect the current composition of the political parties, as it was elected by the outgoing Congress at the beginning of 2014, a few weeks before the constitution of the new Congress, which came into being after the 2013 elections. The deputies of the new emerging parties, Partido Libertad y Refundación (Libre) and Partido Anticorrupción (PAC), did not participate in the election. In a context of political polarization, the absence of judges from the vicinity of these new parties had a negative impact on the perception of their neutrality, both in public opinion and among opposition parties.

In principle, political representatives, including President Hernández, have considerable power to govern, with the caveat that Hernández’s election cannot be considered regular. Otherwise, the current president has been extremely effective in essentially controlling all levers of power, including the judiciary that has been increasingly and deliberately politicized. In contrast, opposition politicians and those not linked to the traditional elites have, at best, very limited chances to influence policy-making to any significant extent, especially since power has been increasingly concentrated around the president.

From this perspective, the role of the military as the traditional veto power in Honduras is contradictory. Although its role seemed rather quiet following the 2009

Effective power to govern

3



1

coup d'état, it has always been an indispensable actor in the field of national and public security. Since Hernández took office in 2013, he has increasingly co-opted the military and endowed it with powers that in a democracy should be reserved for civilians. He decided to appoint high- and middle-ranking military personnel to key positions in state institutions and expand their presence.

It is estimated that between 800 and 1,000 military personnel occupy positions (high, middle and low ranks) across various institutions of the executive branch. Several dozen of them have been appointed ministers or secretaries, apart from the portfolios of security and defense, in state institutions, including Immigration and Foreigners, Transportation (IHTT), Special Zones of Employment and Development (ZEDEs), National Direction of Investigation and State Intelligence (DNIIE) and National University of Agriculture (UNA), and as diplomatic representatives or administrators to the Francisco Morazán Hydroelectric Project (El Cajón), among others.

In addition, there are strong economic groups that exert enormous influence through patronage, and trafficking and bribery on some parts of the state apparatus at the national and local levels. According to InSightCrime, several powerful organized crime groups, connected to political and economic elites, manage most of the underworld activities in the country. The criminal groups have deeply penetrated the Honduran police, which is known to be one of the most corrupt and distrusted police forces in Latin America.

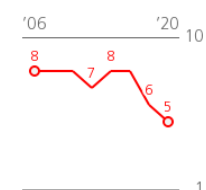
The right to freedom of association and assembly, and the formation of political parties are guaranteed by the constitution, and – despite increasing political polarization – largely respected, albeit with some restrictions. There is a high degree of organization in interest groups (e.g., peasant, workers, teachers and doctors' groups), which make use of their rights to demand improvements.

However, a latent threat of repression is maintained. Thus, these rights are restricted when such groups' interests clash with the interests of groups with strong ties to the ruling elite. Peasant and indigenous groups are often victims of violent attacks by armed groups and hired killers in the service of powerful economic groups. For example, peasants in Bajo Aguán were attacked by the private security forces employed by landowners. Similarly, indigenous people, who protested against the activities of mining companies, were attacked. Human rights associations have also been victims of repression in recent years. At times, restrictions on the right to demonstrate are both severe and often arbitrary, as was shown in the violent repression of protests following the contested election results in 2017, which resulted in 31 deaths and were severely criticized by human rights organizations. Particular groups (e.g., LGBT groups and environmental activists) are often targets of deliberate, lethal violence in which the state is frequently involved.

Notwithstanding, Honduran civil society has shown its dynamism, pluralism and commitment to the electoral process.

Association /  
assembly rights

5



Formally, there is freedom of expression with a reasonable number of established media outlets, newspapers, and radio and TV stations. Yet, the persistence of high levels of violence against journalists and impunity for most crimes continues to be a serious problem. To this structural aspect must be added the apparent decision of the legislative to maintain the crimes of libel and slander, which undermine freedom of expression, in the recent comprehensive reform of the Penal Code and the presentation of a project to regulate social media networks.

Finally, the post-election crisis led to serious aggression by state and non-state actors against media outlets and journalists. It also allegedly included pressure on editors and journalists to influence coverage of the elections and the events that followed. In turn, this crisis contributed to the wave of threats against and stigmatization of journalists from both sides of the political and social divide in the country on social media platforms. The Inter-American Commission on Human Rights (IACHR) has recorded 18 murders of journalists and media workers in the country since 2014 and has been informed of dozens of physical attacks and threats. Journalists covering corruption, organized crime, social protests and land claims face a high risk of violence from both state agents and private third parties, which seek to punish and silence journalists. In this context, the political crisis that followed the presidential elections of November 26, 2017, has increased the risk for journalism in the country.

In RSF's 2018 World Press Freedom Index, Honduras ranked 141 out of 180 countries, one place lower than in 2017, and comparable to Venezuela, Cambodia and Thailand.

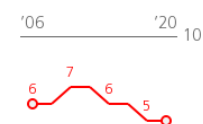
### 3 | Rule of Law

The separation of powers is formally established but very weak in practice. The ruling PN controls the legislature despite having only 61 deputies out of a total of 128. However, in alliance with several small parties – including the Democratic Union (one deputy), Christian Democracy (one deputy), Patriotic Alliance (four deputies) and the PAC (one deputy) – the PN has formed a majority government and holds the presidency of Congress. Consequently, the majority government can approve most of the proposals and measures presented by the executive power, and reject proposals coming from the opposition.

According to an IACHR visit to Honduras in 2018, under the Hernández government, power has been concentrated in the executive branch, which has weakened the independence of the judiciary. According to IACHR, the composition of the National Security and Defense Council (CNSD) includes the president of the Supreme Court (CSJ), the attorney general, the secretary of state for the Security Office, the secretary of state for the National Defense Office and the president of the republic, who presides over the council. The council is the highest body in charge of “governing, designing and supervising general policies on security, national defense and intelligence.” With the sectoral cabinets, the president directly controls the execution

#### Freedom of expression

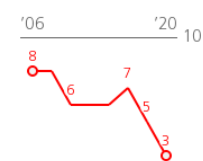
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1

#### Separation of powers

3



1

of the ministerial budgets, which limits ministerial independence. In addition, the executive controls a social compensation budget of about HNL 2,000 million, about 1% of the budget for social programs.

Hernández steadily increased his control over the judiciary and filled independent institutions with his allies, including the Supreme Court. The five judges who voted to allow for his re-election all owed their positions to Hernández. In addition, the president of the Supreme Court was appointed via a corrupt process, strongly criticized by public opinion and civil society. Another example was the re-election of the attorney general, which contradicted constitutional provisions and the principle of legality. The attorney general has shown himself to be incapable and unwilling to combat organized crime. The president reappointed the attorney general, despite the majority of the public rejecting the attorney general for having very obviously leaked files relevant to several corruption cases.

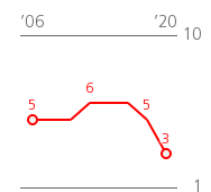
Constitutionally, Honduras's judiciary is independent, and the judicial system is institutionally differentiated. It includes the Supreme Court of Justice, the highest court with 15 judges elected for seven-year terms, a Court of Appeal and several courts of specialized jurisdiction, which handle labor, tax and crime issues, among others. The Supreme Court has final appellate jurisdiction and also includes a Constitutional Chamber.

President Hernández's intervention in the judiciary increased before and after the recent elections, violating the separation of powers established by the 1982 constitution. In December 2012, the Congress presided over by Hernández dismissed four of the five judges of the Constitutional Chamber of the Supreme Court of Justice after the judges ruled that a law against police corruption was unconstitutional. The legislature assigned itself the power to remove the president of the Supreme Court of Justice in 2013. In April 2015, on the initiative of legislators from the ruling party, the court repealed a constitutional provision prohibiting the re-election of the incumbent president. In less than a year, in February 2016, Congress approved a new panel of judges, which is considered to be close to Hernández. President Hernández was thus able to run for re-election in 2017.

In addition to the blatantly unconstitutional moves and strong political interference in the selection of justices over recent years, one has to add the very selective application of the law, for instance, in cases of corruption and violent crimes. The judiciary is subject to corruption at all levels and, particularly at the local level, is also often subject to violent intimidation. Political favoritism negatively affects not only checks and balances, but also decisions concerning penal and civil law made by different judicial organs. The latter is of great concern, as it undermines confidence in the system (among both litigants and citizens). Furthermore, most Hondurans have only limited access to the courts, which remains one of the country's most striking deficiencies in terms of deepening the democratic system.

Independent  
judiciary

3

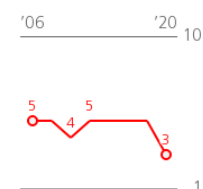


Officeholders who break the law and engage in corruption are not adequately prosecuted, although they occasionally attract adverse publicity. Political and bureaucratic corruption is endemic, and citizens consider corruption to be one of the most urgent problems impairing good governance. In 2015, President Hernández admitted that his presidential campaign had received a portion of the \$335 million that was stolen by high-level officials of the Honduran Social Security Institute (IHSS). Citizen pressure over extreme cases of corruption forced Hernández to ask the Organization of American States (OAS) to form an independent mission to investigate corruption cases, given that the Honduran judicial system lacks citizen trust.

The OAS Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH) started in April 2016. According to a detailed study by the Center for Latin American and Latino Studies (CLALS) published in 2018, the attorney general, the National Congress, the executive branch and various courts initially worked with MACCIH. MACCIH has worked closely with the National Anti-Corruption Council (Consejo Nacional Anticorrupción, CNA), a non-governmental entity created in 2005 by the Honduran government in compliance with the U.N. Convention against Corruption. MACCIH secured indictments against five members of parliament and the former first lady Rosa Elena de Lobo. The mission benefited from the work previously carried out by the CNA. However, after the controversial presidential and legislative elections of November 2017, the outgoing Congress passed a reform, called the Impunity Law, which prohibited MACCIH and the attorney general from investigating such cases until the Superior Court of Accounts (TSC) concludes its audit, a process that might take up to three years. In May 2018, the Constitutional Chamber of the Supreme Court of Justice (CSJ) ruled that the Special Prosecutorial Unit Against Impunity and Corruption (UFECIC), created to ensure the effectiveness of MACCIH, was unconstitutional. The CLALS report concluded that once the investigations touched certain political elites, several legal, political and judicial spaces were closed to the investigators, hindering the capacity of MACCIH and the Public Prosecutor's Office to continue their investigations. The failure of MACCIH is the best example that in Honduras corruption in general and notorious cases (e.g., IHSS, "Arca Abierta" and Pandora) go unpunished, and that the government prevents any attempt to reform the judicial system to combat corruption and organized crime.

Prosecution of  
office abuse

3



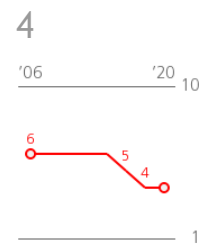
There is insufficient respect for the civil rights codified by national and international law, which have deteriorated over the last decade, including fundamental rights to life, liberty and physical integrity. There are mechanisms and institutions in charge of pursuing and punishing civil rights violations, but these institutions do not function appropriately. In many cases, a lack of resources is a key 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.

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. 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 one of the highest worldwide. According to a 2018 IACHR report, violence against women and femicide have increased, with 90% of cases remaining unresolved. Further discrimination includes the total prohibition on abortion and the emergency oral contraceptive pill. LGBTI people face violence and widespread discrimination, which usually goes unpunished. Between 2013 and 2018, 177 murders of LGBTI people were reported. The criminalization of human rights defenders is widespread. The IACHR observes that the exposure of human rights defenders to lengthy criminal proceedings, in which substitutive measures are imposed, has a multiplier effect, intimidating those who defend similar causes.

Though the state recognizes the ancestral territory of indigenous peoples and Afro-descendants, according to the same report there have been complaints about the lack of demarcation, titling and reorganization of the territory of indigenous peoples and Afro-descendants. The various mining exploration activities, and tourist and hydroelectric projects within the territories of indigenous peoples and Afro-descendants without prior consultation have increased. The Mosquitia offers a picture of poverty, unemployment, limited access to health care and energy services, and lack of clean drinking water and adequate sanitation.

Thousands of people have been forced to move internally as a result of various forms of violence, including maras and gang violence, gender and intra-family violence, violence based on sexual orientation and gender identity, violence by state actors in the post-electoral context, displacement caused by the establishment of extractive industries, and displacement caused by natural disasters. In Honduras, despite the protection needs of many Hondurans who migrate abroad, the IACHR observes that the number of people deported is increasing due to the hardening of migration policies in the United States and Mexico.

#### Civil rights





#### 4 | Stability of Democratic Institutions

The performance of democratic institutions has increasingly been tarnished by the concentration of power in the executive, the dubious 2017 presidential elections, and the further weakening of the judiciary and other institutions of oversight. This is evidenced by the emergence of MACCIH following domestic and international pressure, and its subsequent neutralization. The decision of the Constitutional Chamber to allow the re-election of the incumbent president severely weakened the institutionality of the state. The chamber's decision was possible because the National Congress had dismissed the previous magistrates of the Constitutional Chamber and appointed judges related to the governing party. The involvement of the military in nominally democratic (i.e., civilian) positions has further cast doubt on the democratic performance of existing institutions. Perhaps due to this power concentration beyond constitutional prescriptions, and despite the corruption and drug-trafficking scandals in which he and his family have been involved, President Hernández's leadership within the PN has not been substantially weakened. In summary, even if "democratic" institutions formally perform their functions, the game is no longer democratic.

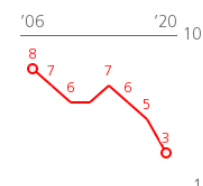
The relevant political actors in Honduras – represented by the traditional parties, as well as political, functional and societal elites – are committed to formally democratic institutions as long as their hold on power is not questioned. However, none of the stakeholders openly calls into question the role and functions of democratic institutions.

Neither the apparent "power outage" during the 2017 vote count nor the very sudden change of direction in the vote count (away from the main opposition and toward the incumbent candidate) have been adequately explained or clarified.

While citizen pressure led to the establishment of the Support Mission against Corruption and Impunity in Honduras (MACCIH), there was fierce resistance against MACCIH's work from members of the elite, especially in Congress, including a challenge to the constitutionality of MACCIH and legal reforms were passed that make the prosecution of corruption much more difficult. In the wake of MACCIH's cases, Congress passed a law that effectively blocked MACCIH's jurisdiction over congressional malfeasance. The law postponed any accusation of misuse of funds until the Superior Court of Accounts completes its investigation, which could be three years or more away, considering the huge backlog of audits. In addition, there is a discrepancy between the enactment of laws and initiatives to improve legitimacy and performance, and the willingness of officials to implement them.

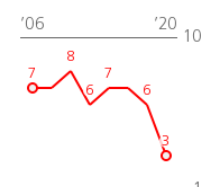
Performance of democratic institutions

3



Commitment to democratic institutions

3





## 5 | Political and Social Integration

The party system is relatively stable and socially rooted through clientelism, with moderate fragmentation, moderate voter volatility and moderate (albeit increasing) polarization. While the 2013 elections ended the long-standing two-party system between the National Party (Partido Nacional, PN) and the Liberal Party (Partido Liberal, PL) with the emergence of left-wing parties (e.g., the Partido Libertad y Refundación, Libre), the 2017 elections saw no further fragmentation and resulted in 3.07 effective parties in parliament. The conservative PN obtained 61 seats in the National Congress, 13 more than it had previously and four seats short of an absolute majority. The socialist-leaning Libre has 30 legislators, seven fewer than in 2013. The liberal-conservative LP lost one deputy, but remained the third largest parliamentary force with 26 deputies. In the municipal elections, the two traditional parties, PN and PL, strengthened their positions. The PN won in 173 out of the 298 municipalities, and the PL won 91 mayoralties and recovered several municipalities.

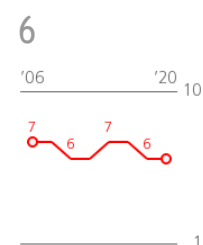
Historically, both traditional parties have been strongly rooted in society through a system of clientelism and patronage, including vote-buying and the use of diverted funds. On the other hand, Libre is solidly rooted in agrarian and urban social movements. Polarization has intensified since the 2009 coup against the then President Zelaya and continues to break out from time to time, such as during and after the contentious 2017 presidential elections. Polarization, however, is only partly due to ideological differences. Indeed, there are no real ideological differences between the PN and PL, and programmatic differences are largely unclear or even nonexistent, while Libre – founded by a leftist coalition of organizations opposed to the 2009 coup – has a clear left-leaning position. However, this ideological difference is overlaid by the (anti-)establishment bias, which is nourished, among other things, by the question of (anti-)corruption.

The influence of interest groups in Honduras is strongly unbalanced. The power of economic groups in managing the economy and politics in Honduras is very strong and oligarchic. The most influential private enterprise organizations are the Honduran Council of Private Enterprise (COEHP), the Honduran Association of Maquiladoras (AHM), the Chamber of Commerce and Industry of Cortés, and the Chamber of Commerce and Industry of Tegucigalpa. In addition, there is also the Media Association and the Honduran Association of Banking Institutions.

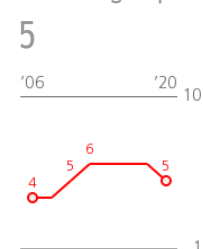
On the opposite side, there has been a considerable weakening of trade union organizations, including the Central General de Trabajadores (CGT), the Central Unitaria de Trabajadores and the Central de Trabajadores de Honduras.

There are also single-issue organizations focused on topics such as environmental protection and gender inequality. There are also organizations promoting human rights (COFADEH, CIPRODEH, CODEH), and the rights of historically underprivileged or discriminated against population groups, such as women (CDM,

Party system



Interest groups



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 who reject mining investment and the construction of hydroelectric projects. Its leaders are often victims of police harassment. Some of these groups have gained notoriety since the coup of 2009. But many of their members are subjected to repression and physical attacks. Usually harassment of members of popular organizations goes unpunished and uninvestigated.

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, which discourages 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., teacher, worker and peasant unions). Other segments of the population, particularly citizens from the lowest strata of society, are underrepresented and have little access to political decision-makers.

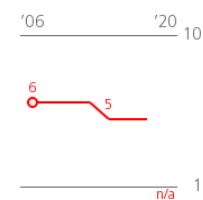
The coexistence of democratic laws and institutions with autocratic methods to keep politicians in power creates an inherent source of instability, which has further eroded democratic legitimacy. These factors were observed in the governments of Manuel Zelaya Rosales (2006–2009) and Juan Orlando Hernández (2014–2018). In both cases, these factors led to violent popular reactions, rejecting authoritarian intentions, as well as a deterioration in the quality of democracy.

According to Latinobarómetro 2018, public support for democracy has steadily declined from 53% in 2010 to 34% in 2018, the lowest level of satisfaction with democracy and institutions in the country since 1995. The percentage of respondents stating that democracy is the comparatively best political system, at least better than all others, is higher (57%), but also below the Latin American average. While 41% of respondents reported being indifferent toward democracy, the second highest percentage behind El Salvador, only 10% declared an authoritarian regime preferable to democracy.

Trust in specific institutions is also rather low, though mostly in line with the average for Latin American countries surveyed. For example, in Honduras, trust in government was 25% (Latin American average: 22%), trust in the election authority was 18% (Latin American average: 28%), trust in the parliament was 21% (Latin American average: 21%), trust in the judiciary was 25% (Latin American average: 24%) and trust in political parties was 13% (Latin American average: 13%). The most-trusted institutions were the Catholic Church with 75% (Latin American average: 63%) and the media with 42%. Meanwhile, trust in the military was 35% (Latin American average: 44%) and trust in the police was 33% (Latin American average: 35%), with both institutions only slightly more trusted than political institutions.

Approval of  
democracy

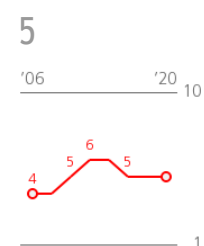
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Political polarization and violence have led to a further reduction in the low level of trust among the population. While interpersonal trust among Hondurans had been traditionally high, 33% in 2011 according to Latinobarómetro, interpersonal trust had declined substantially by 2018, with 14% of respondents agreeing that one could trust most other people, equal to the Latin American average.

There have been some advances in terms of self-organizing activism and the defense of rights. Yet, from the side of the state, there have been, and continue to be, strong efforts to prevent the emergence of coherent processes of self-organization that may undermine the status quo. High levels of violence and corruption also impede the emergence of social coherence. Particularly the generalized violence perpetrated by the maras and organized criminal groups have created an atmosphere of fear in the population. Therefore, the construction and strengthening of social capital is often the result of specific actions by particular groups, which encounter substantial resistance, rather than the consequence of a deliberate policy of promoting generalized self-organizing coherence. Likewise, the efforts of indigenous groups to achieve and guarantee their rights with regard to, and often against, mining and hydroelectric industrial projects show strong citizen engagement on certain key issues, but encounter strong interference.

### Social capital



## II. Economic Transformation

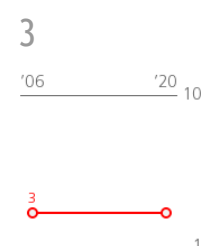
### 6 | Level of Socioeconomic Development

Poverty and inequality are pronounced and structurally ingrained. Honduras's level of development, as scored by the Human Development Index (HDI), is 0.617. This score is below the average of 0.645 for countries in the medium human development group, and below the average of 0.758 for countries in Latin America and the Caribbean. The country ranked 133 out of 189 countries worldwide. In Latin America, only Haiti exhibits lower levels of human development. According to government data, 61.9% of Honduran households fell below the poverty line in 2018, with 38.7% falling into the definition of extreme poverty.

Economic inequality in Honduras is the fourth highest in Latin America, with a Gini coefficient of 50.0 in 2016. The human inequality coefficient for Honduras indicates a loss of 25.6% of human development due to inequality in the distribution of the HDI dimension indices, the fourth highest in the region (the regional average is 21.8%). The wealthiest 20% of society received 55% of total income in 2017, while the poorest 20% received only 3.2% of aggregate income, a level almost 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 and education,

### Question Score

### Socioeconomic barriers



widespread unemployment and “informal” employment, and inadequate infrastructure and markets).

The most serious form of social exclusion is experienced by rural populations. Minifundistas, or subsistence farmers, make up about 70% of farming families. The highest concentration of rural poverty is found in the west of the country, which also has the greatest concentration of extreme poverty. Lack of access to land and basic services, low agricultural productivity and a vulnerable environment are the main root causes of poverty. Lack of employment opportunities in rural areas has been a major driving force behind the country’s high level of emigration.

The country’s Gender Inequality Index score is 0.461, significantly higher than the regional average of 0.386. The Gender Development Index (loss in human development due to inequality between female and male achievements) score is 0.978.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	20833.9	21566.6	22940.2	<b>23803.2</b>
GDP growth	%	3.8	3.9	4.8	<b>3.7</b>
Inflation (CPI)	%	3.2	2.7	3.9	<b>4.3</b>
Unemployment	%	4.6	4.7	4.0	<b>4.1</b>
Foreign direct investment	% of GDP	6.3	5.3	5.5	<b>5.7</b>
Export growth	%	2.9	0.9	5.2	<b>1.4</b>
Import growth	%	8.5	-1.6	5.6	<b>2.8</b>
Current account balance	\$ M	-979.9	-567.1	-417.8	<b>-1005.3</b>
Public debt	% of GDP	37.4	38.4	39.2	<b>40.2</b>
External debt	\$ M	7585.2	7581.9	8809.2	<b>9547.9</b>
Total debt service	\$ M	1283.6	1034.1	1814.6	<b>2052.1</b>

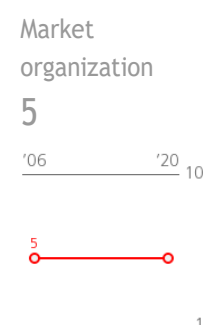
Economic indicators		2015	2016	2017	2018
Net lending/borrowing	% of GDP	-0.9	-	-	-
Tax revenue	% of GDP	17.3	-	-	-
Government consumption	% of GDP	14.3	14.1	13.7	<b>13.7</b>
Public education spending	% of GDP	6.4	6.3	6.0	-
Public health spending	% of GDP	3	3.9	-	-
R&D expenditure	% of GDP	0.0	-	-	-
Military expenditure	% of GDP	1.7	1.7	1.7	<b>1.7</b>

Sources (as of December 2019): 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 functioning of the market economy in Honduras has its dark and light sides. The legal framework for the functioning of the market economy is relatively well defined. A legal framework regulating the market economy, and a Commission for the Defense and Promotion of Competition (CDPC) were both introduced in 2006. However, market organization and free competition is undermined by bureaucratic obstacles, corruption, abuse of power and a pronounced lack of capacity in public administration. Moreover, the high levels of crime and violence negatively affect investor confidence and increase the cost of doing business.

According to the World Bank's 2019 Doing Business Report, it takes 11 procedures and 13 days, and costs 40.7% of income per capita to start a business. As a result, Honduras ranked 154 out of 190 countries for starting a business. According to the Global Competitiveness Report 2018 to 2019, Honduras dropped from rank 96 in 2017 to 101 out of 140 countries, designating it, along with Nicaragua and Venezuela, as the country with the lowest levels of market competition in the region. The report highlights the slight improvement in the quality of the road network and port infrastructure services, but also the serious challenges faced with regard to the quality of and access to clean drinking water and electricity. The protection of minority investors is still as weak as the supply of electricity. In other words, the difficulties of the market economy in Honduras are a combination of institutional weaknesses (ranked 117 out of 140), poor infrastructure (ranked 98 out of 140) and low educational level (ranked 108 out of 140). According to the World Bank, access to credit is relatively high (ranked 12). Together with obtaining construction permits, these two indicators that score highest in Honduras. Protection of minority investors is quite low (ranked 129).



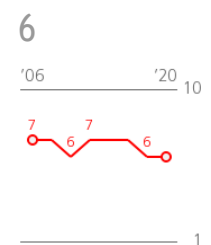
According to the ILO in 2016, 80% of employment in Honduras was informal, while the IMF puts the size of the informal sector at almost 38% of the total economy in 2015.

Honduras has ratified all fundamental ILO conventions. Out of 26 ILO conventions ratified by Honduras, of which 25 are in force, no convention has been denounced. One convention, ratified in the past 12 months, is yet to be implemented. However, most of the labor force is not engaged in formal labor markets. There are no restrictions on investment-related transfers or payments. In general, the government encourages both domestic and foreign investments, but other circumstances (e.g., the lack of physical and legal security, and corruption) deter potential investors.

The legal framework for the functioning of the market economy is relatively well defined. A law regulating the market economy and a Commission for the Defense and Promotion of Competition (CDPC) were both introduced in 2006. In 2015, the Competition Law was reformed. The reformed law aims to promote and protect the exercise of free competition in order to ensure the efficient functioning of the market. Through it, the economic concentrations are regulated to prevent abuses by companies that have a dominant market position. The law also prohibits the commission of restrictive practices of free competition, both by nature and its effect. Furthermore, the act facilitates the coordination and cooperation between the CDPC, and regulatory commissions in sectors such as banking, insurance, telecommunications and energy. However, the competition law contains no provision relating to state aid or any general control of it, nor to a clear definition or control of subsidies. The CDPC has no means to investigate the anti-competitive effects of subsidies or state aid.

Moreover, competition is affected by bureaucratic obstacles, corruption, abuse of power and a pronounced lack of capacity in public administration. In addition, the application of laws and rules are inconsistent for two main reasons. First, the absence or, at best, fragile presence of state administration across significant parts of the country. The existence of parallel power structures means that, while laws exist, laws are ignored or replaced by ad hoc laws applied by those in charge of the alternative power structures, undermining long-term planning, and creating obvious risks to life and property. Yet, secondly, even where the state administration does exist, it is open to endemic corruption and the uneven application of the law to protect particular groups or interests while seeking to disadvantage rivals. The close links between business and politics in Honduras mean that there is no independent oversight of either.

#### Competition policy



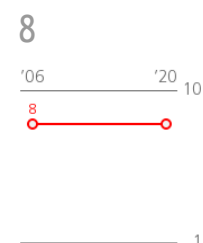
Honduras has been a member of the WTO since 1995. According to the WTO, Honduras has a relatively open trade regime, and does not use anti-dumping or countervailing measures. The Honduran economy's average degree of openness through trade was 87% in 2017, compared to 91% in 2016. Imports represent 49.5% of Honduran GDP. However, applied tariff rates for a few products remained above bound rates. There are certain types of nationality restrictions on consulting services, property limitations or discrimination in public procurement in almost all sectors. 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. Honduras has engaged in a trade facilitation initiative at the regional level. The average applied MFN rate is 5.9%. Non-agricultural products are subject to an average tariff of 15% and agricultural products to an average tariff of 10.7%. All tariffs are bound, with a bound average tariff of 32.4% for agricultural products and 31.7% for other products. Doing Business 2019 ranked Honduras 123 worldwide concerning trading across borders (i.e., time and cost to export and import).

The United States continued to be Honduras's main trading partner, accounting for 40% of exports and 35% of imports in 2018. In June 2012, Honduras and other MCCA members signed a comprehensive association agreement, including a trade component, with the European Union, stipulating total liberalization of trade in industrial products and fisheries. Honduras has free trade agreements with the United States and the Dominican Republic (CAFTA-DR), and Mexico, Chile, Colombia, Panama and Taiwan. The implementation of these free trade agreements has led to modernization and liberalization of Honduran trade and investment regimes. The Canada-Honduras Free Trade Agreement and parallel agreements on labor and environmental cooperation entered into force on October 1, 2014.

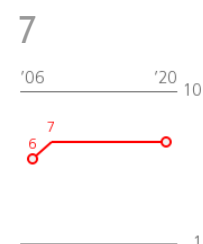
The Honduran banking system, whose stability was considered rather insecure in the 2000s, has undergone important reforms since then and is nowadays rather well developed and relatively stable, though deficiencies remain. Among other measures, the Banking and Insurance Commission (Comisión Nacional de Bancos y Seguros, CNBS), which is responsible for the control and supervision of the financial sector, has increasingly strengthened its supervisory capacity. The CNBS is a decentralized agency responsible for ensuring the stability and solvency of the financial system and other institutions supervised by it, including the securities market. The CNBS maintains functional and budgetary independence from the government, and is responsible, among other things, for monitoring, supervising and controlling financial sector institutions, and issuing standards for proper performance.

The most recent 2015 Basel Implementation Survey by the Financial Stability Institute listed Honduras as having the Basel II and III final rules "in force." In its 2018 Article 4 country report, the IMF states that the CNBS had made progress toward implementing risk-based supervision, enhancing AML/CFT and better

#### Liberalization of foreign trade



#### Banking system





monitoring cross-border activities of banks, in line with recommendations of the 2016 Financial Sector Stability Review; and that the regulatory framework had been strengthened as part of the implementation of the Basel III standard. A 2017 IMF-conducted stress test on the Honduran banking sector found it broadly resilient to most standardized shocks. The tests highlighted banking sector resistance in managing interest rates, FX and liquidity shocks individually, with capital adequacy falling below the regulatory minimum only in the combined shock scenario. As of the end of 2017, the 13.7% bank capital adequacy ratio was well above the regulatory minimum and the non-performing loans ratio was at an historical low (2.3%).

According to the CNBS, as of September 30, 2018, there were 15 commercial banks, nine pension funds, 12 insurance companies, 10 finance companies and seven brokerage houses operating in Honduras. There are two state development banks, one for the primary sector development (Banco Nacional de Desarrollo, BANADESA), and one primarily for manufacturing, commerce, services and housing (Banco Hondureño para la Producción y la Vivienda, BANHPROVI). The Honduran financial system has focused its loans on five major economic activities. As of 2016, 85.6% of the loans granted by the financial system in Honduras were distributed to real estate (24.1%), consumption (21.8%), services (15.4%), trade (14.1%) and industry (10.2%). According to the CNBS, a total of eight authorized financial groups (BAC/Credomatic, Citi, Davivienda, FICOHSA, Del País, Continental, Lafise, and Atlántida) control some 40 institutions, such as the largest banks, the most important insurance companies, remittance companies and pension funds.

## 8 | Monetary and fiscal stability

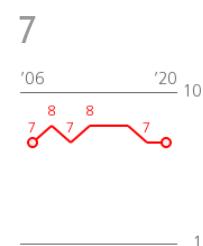
Controlling inflation and an appropriate foreign exchange policy are recognized goals of economic policy, but have not been consistent over time and do not have an adequate institutional framework. The central bank is largely independent, but requires reform to enhance its institutional, financial and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

The restrictive central bank monetary policy helped to keep inflation, which hovered around 5% to 6% between 2010 and 2014, under control. According to CEPAL data, after declining to 2.4% in 2015, the inflation rate slightly increased again to 3.3% in 2016, and 4.7% in 2017 and 2018.

This is still within the target range established in the Revision of the Monetary Program 2017 to 2018 of 4.0%  $\pm$  1.0 percentage point. Inflationary pressures were mainly due to price increases on foods, fuels, electricity and water.

The central bank uses the Electronic Foreign Exchange Trading System (electronic auctions) mechanism to fix the exchange rate daily. Since 2011, following IMF recommendations, the central bank operates a 7% dirty float system within bands, which it expanded in mid-2013, resulting in a gradual depreciation and adjustment

### Monetary stability





against the U.S. dollar. Nevertheless, depreciation in 2016 and 2017 (about 0.5%) has been lower than the central bank projections of 5%, as factors (e.g., the balance of reserves or the increase in remittances) favored the stability of the Honduran lempira.

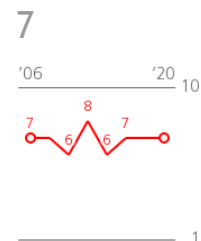
The economic policy objectives of the government focus on attempting to maintain macroeconomic stability, control the public deficit and find sources of financing to cover the country's infrastructure needs. The Sectoral Cabinet of Economic Management and Regulation is responsible for the economic stability policy, and coordinates various ministries and institutions, including the Secretary of State for Finance (SEFIN), central bank and several government institutions (e.g., CNBS and BANHPROVI).

Under pressure from the IMF, the government introduced various measures (e.g., reducing the number of staff employed by public enterprises) to increase revenue and tighten spending. The fiscal deficit decreased from 4.5% in 2014 to 3.1% in 2015 to 2.8% in 2016 and 2017, and 2.1% in 2018 (CEPAL data). The government presents the reduction of the fiscal deficit in an electoral year (2017) as an historic milestone following the approval of the Fiscal Responsibility Law in 2016. The application of measures (e.g., electronic invoicing, the tax increase on gross sales, the strengthening of the Office of Large Taxpayers and the temporary closure of businesses that failed to comply with their obligations) brought, along with the increase in taxes, a substantial improvement in government revenues.

However, as the IMF mentions in its 2018 report, the sustainability of tax policies is uncertain as the government backpedaled on key areas in 2017 to 2018. With the replacement of the Executive Revenue Directorate (DEI) by the so-called Revenue Administration System (SAR), the executive branch had already weakened the tax administration for eminently political purposes in 2016. In addition, customs operations were taken from the SAR to create a new customs administration under the Office of the president, which created institutional and procedural uncertainty as well as suspicions, as customs is an area well-known for corruption in Honduras. Additionally, the government approved a generous tax amnesty program and implemented a new Tax Procedures Code, which diminished the enforcement powers of the SAR. These are signs that government policies are still prone to ad hoc permissive policy changes.

According to data from CEPAL, gross public debt increased from around 30% of GDP in 2010 to 47.7% in 2017 and 46.3% in 2018. The external debt of central administration represents 62% of the total debt owed by the central government. The increase is mainly due to the placement of sovereign bonds, the funds of which were assigned to the Empresa Nacional de Energía Eléctrica (ENEE).

Fiscal stability



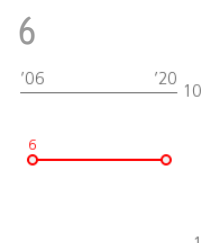
## 9 | Private Property

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's secured transactions law gives a concession to the CCIT to administer the registry. The investment law and the constitution limit foreign property rights only if property is reserved for Honduran nationals. Another restriction to property is imposed on companies benefiting from the law on agrarian reform, provided that the majority of shareholders are Honduran. 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 law on agrarian reform also allows for expropriation for the purpose of passing it on to destitute persons and peasants that do not own land. The existence of property 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.

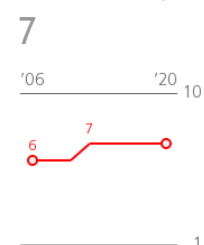
Overall, the country has very weak institutional structures and processes so that, in many cases, the rights and protections enshrined in law cannot be guaranteed. Lawsuits concerning the enforcement of business contracts last on average 30 months. Local power structures are able to manipulate the justice system by means of selective resistance. These shortcomings are one causal factor for – sometimes violent – disputes over land rights, such as the conflict between large-scale landowners and peasants in the Bajo Aguán province. The protection of intellectual property rights is under the jurisdiction of the Honduran Property Institute. The General Directorate of Intellectual Property (DIGEPIH) division handles the registration of patents, trademarks, and copyrights, as well as any complaints regarding their infringement. The Property Institute is also affected by corruption and institutional weakness. Small and medium entrepreneurs are less legally secure than large enterprises.

Private companies are viewed institutionally as important engines of economic production and are given legal safeguards. However, most modern private sector enterprises (banking, energy production, fast food and tourism, telecommunications, and some export products) are in the hands of a few families. These companies benefit the most from government policies to the detriment of other national and international private investors and companies. The privatization of public enterprises has been marked by corruption. Privatization has benefited these few powerful families. A mechanism for outsourcing and PPPs has been introduced. The Empresa de Energía Honduras (EEH) has been contracted out to improve performance. A tender was issued for the distribution of energy. The Kafie and Nasser families are the most powerful families involved in the generation of energy and control the gas station

Property rights



Private enterprise



network. The production and supply of energy is considered to be very poor and has not improved.

The Hernández government has made progress in the privatization of existing state monopolies. Strategic sectors of the Honduran economy are controlled by the state, including telecommunications (Hondutel), electricity (ENEE) and the National Port Company (ENP). Drinking water services have been transferred to municipalities, which have been outsourced on concession to private companies in some municipalities. All these companies have strategic significance for the transformation in Honduras.

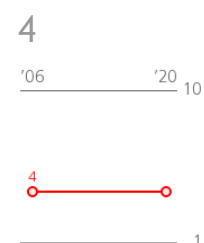
Hondutel's legal monopoly has been eroded through gradual privatization. The Honduran government has not yet found a strategic partner to restructure Hondutel. The generation of most electric energy in Honduras is now in private hands, which has led to a decline in the significance of the inefficient ENEE. In 2014, the parliament approved more than 80 contracts between ENEE and private companies, although these have not yet been implemented. Water service is highly decentralized in Honduras, allowing municipalities to guarantee concessions to private companies. San Pedro Sula, the second city, has guaranteed concessions for 30 years. Tegucigalpa, the capital, on the other hand, maintains a monopoly over water and sanitation services.

The establishment of Economic Development and Employment Zones (ZEDEs) has been permitted since 2013. Companies operating in ZEDEs are exempt from paying import duties, and other charges on goods and capital equipment, and can (without restriction) repatriate profits and capital. In addition, the production and sale of goods within export processing zones are exempt from state and municipal income taxes for the first 10 years of operation.

## 10 | Welfare Regime

Social safety nets are underdeveloped and cover only a limited number of beneficiaries working for the public sector. Specific sections of the population have access to acceptable pensions, especially public sector employees and teachers. Social safety nets exist for certain segments of public employees. Social security systems, such as the Institute of Retirement and Pensions for employees and civil servants of the executive branch (INJUPEM) and the Institute of Teachers' Welfare (INPREMA), work quite well. By 2017, INJUPEM had 15,800 beneficiaries and INPREMA had 18,000 beneficiaries. The employees of the one public university also have INPREUNAH. The Honduran Institute of Security (IHSS) has 286,000 benefited private sector employees. However, the amounts received by insured members are extremely low. The vast majority of informal sector employees are not included in any social security system.

Social safety nets



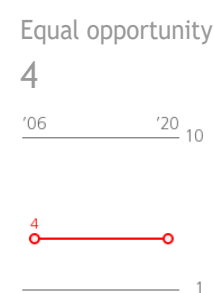
Most formal employees in regions where the Honduran Institute for Social Security (IHSS) offers services (Tegucigalpa, San Pedro Sula and some other cities) are covered by the IHSS health care system. There is the Employer Contributions Regime, a private company pension fund, which manages a pension fund and a social benefits fund. The health care system's coverage is very rudimentary. Social security contributions have increased in the last four years. However, this does not apply to workers in the informal sector and their families, or to peasants engaged in subsistence farming. It not only affects subsistence farmers, but also extends to agricultural workers. Less than 2% of agricultural workers are covered.

On paper, the legislation that exists for the provision of equal opportunities and the punishment of discriminatory practices is reasonably advanced by regional standards. Yet, the enforcement of these laws is, at best, patchy and discriminatory practices continue to be widespread, despite the legislative framework.

Since 2000, important legislative reforms have been passed, including the Law on Equal Opportunities (LIOM), and the Law on Elections and Political Organizations (LEOP), which established a minimum participation quota of 30% for women in all popularly elected positions. The 2012 LEOP reforms increased this quota to 40% for the 2013 elections, with a further increase to 50% for the 2017 elections. While parliamentary seats won by women increased from a mere 5.5% to 23.4% in 2005, this proportion has remained stagnant since then, with women winning 21.1% of parliamentary seats in the 2017 elections. Concerning education, women are at par in literacy and primary education, and outperform men in secondary (1.2) and tertiary education (1.4), where overall enrollment, however, is low (20.5%).

In the 2013 census, approximately 8.5% of the population identified as members of indigenous communities, although other estimates were higher. Indigenous groups (e.g., the Misquitos, Tawahkas, Pech, Tolupans, Lencas, Maya-Chortís, Nahual, Bay Islanders and Garifunas) have limited representation in the national government, and consequently little direct input into decisions affecting their lands, cultures, traditions and the allocation of natural resources. According to the U.S. Department of State's country reports on human rights, indigenous peoples continued to report threats and acts of violence against them, and against community and environmental activists. Indigenous peoples and Afro-descendants continued to experience discrimination in access to employment, education, housing and health care services.

The law states that sexual orientation and gender identity merit special protection from discrimination and includes these characteristics in a hate-crime amendment to the penal code. Nevertheless, social discrimination against LGBTI people continues to be widespread. The law provides persons with HIV the right to have access to, and remain in, employment and the education system.

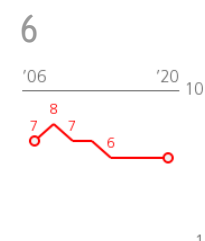


## 11 | Economic Performance

Honduras's economic performance has been slightly positive, but hampered by some imbalances. GDP per capita in PPP terms amounted to \$4,986 in 2017, a rather low level but having increased over recent years. GDP per capita growth (constant local currency) was 3.1% in 2017 and remained positive in recent years (but low at times) due to the dynamism of private consumption, exports and the recovery of gross investment. CEPAL estimated GDP per capita growth at 2.3% for 2018, as political uncertainty and less favorable external conditions are expected to moderate economic growth. Domestic consumption profited from an increase in the minimum wage, higher remittances and the improvement in international coffee prices.

Public debt grew by 12.5% to \$10.025 billion, equivalent to 47.7% of GDP. The external debt of the central government represents 62% of its total debt. The increase is mainly due to the placement of sovereign bonds whose funds were allocated to the Empresa Nacional de Energía Eléctrica (ENEE). Inflation decreased over recent years to 3.9% in 2017 (although CEPAL reported a higher inflation rate of 4.7% in 2017 and 2018). Unemployment remained relatively low (4.5% in 2017), although more pressing problem is underemployment and employment in the informal sector (equivalent to approximately 80% of total employment).

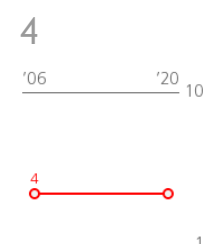
Output strength



## 12 | Sustainability

There is a contradiction between government statements on environmental sustainability policy and practice. Especially when it comes to mining concessions, environmental concerns receive insufficient consideration and are subordinated to the interests of mining companies. The government of Honduras secretly approves licenses and environmental procedures through a Ministerial Agreement by the Ministry of Environment, approved in 2018. A report presented in March 2018 by the Honduran Center for the Promotion of Community Development (CEHPRODEC) established that the state has granted 302 concessions for mining exploitation and exploration covering an area of 2,173 square kilometers, which has caused damage to the environment and the livelihoods of local communities. Aggravating this imbalance is the fact that defending the environment in Honduras carries enormous risks to life, as the country is one of the most dangerous in the world for environmental activists.

Environmental policy



Several reports and indices evaluate Honduras as very vulnerable to the effects of climate change. According to the Global Climate Risk Index 2019 report, Honduras is among the countries most affected by climate change. Storms, rainfall, floods and landslides were the main causes of damage in 2017. The document states that disasters caused by natural phenomena have caused an average of 4.28 deaths per

100,000 inhabitants, losses of about \$560 million in public and private infrastructure, as well as other agricultural and material damage (e.g., loss of crops).

At least on paper, Honduras has committed to the majority of international agreements, especially those concerning climate change, biodiversity, desertification and drought. Honduras has been a signatory of the United Nations Framework Convention on Climate Change (UNFCCC) since 1995. The National Directorate of Climate Change (DNCC) was created and the National Climate Change Strategy (ENCC) was prepared in 2010. Together with the Climate Change Law, their objective is to induce low-carbon development resilient to the effects of climate change, which promotes adaptation and provides benefits to the population. While the government's Strategic Plan 2018 to 2022 recognizes the diverse environmental problems, its proposed policy measures are only vaguely defined, such as "Promote ecological restoration of degraded ecosystems and landscapes."

The contribution of education policies to a system of education and training has serious deficits in secondary education and low school enrollment rates. Together with Guatemala and Haiti, Honduras continues to perform the poorest in Latin America in terms of education outcomes, despite education spending as a percentage of total government spending in Honduras being among the highest in Latin America (about 6% of GDP) and the substantial support Honduras receives from international cooperation in the Education for All program. According to the 2018 Human Development Report, Honduras ranked 92 (among 133 BTI countries considered) and scored 0.502, the second lowest in the region, only ahead of Haiti. The education system starkly reflects the structural inequalities within the country as a whole.

The challenges in education are enormous, and include tackling illiteracy in rural areas, improving access to secondary education and improving the quality of education at all levels. In October 2018, the government approved the Education Sector Strategic Plan 2018 to 2030 (PESE) with the aim of improving educational quality. With respect to investment, the plan foresees the construction of 10,000 technological classrooms, the acquisition of more than 34,000 computers and the training of 20,000 teachers in new technologies. This is not the first strategic plan in Honduras. Experience shows that there is an enormous discrepancy between planning and implementation. The government has not been able to improve human capital through its education policies. Consequently, the overall labor force remains poorly qualified, which affects competitiveness in a globalized economy. Generalized violence affects the realization of goals to improve education, while generalized violence and poverty prevent an increase in primary education enrollment. At the secondary education level, the government has not increased the number of graduates. In fact, enrollment rates are low in secondary education (54.2) and dire in tertiary education (20.8), compared to primary education (95.2).

Education policy /  
R&D

3

'06 '20 10

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There are currently 11 universities. The largest is the National Autonomous University of Honduras (UNAH), which is public. The rest are private or religiously affiliated universities, such as the Catholic University.

The absence of a comprehensive educational infrastructure, of substantial attention to human capital development, and of a research and technology policy constitute gaps in Honduras's development. As long as these gaps remain, the country will have only limited options in terms of expanding its portion of the value-added in supply chains.

## Governance

### I. Level of Difficulty

Honduras has a good geographic location. With coasts on both oceans and in the center of the Central American Isthmus, Honduras has enormous potential to participate actively in trade flows. However, the incidence of poverty, especially growing urban poverty, is one of the main difficulties in developing better governance and efficiently exploiting its potential. Despite some progress, the development of road infrastructure and, above all, the lack of an international airport negatively affect connectivity. Honduras is very vulnerable to the effects of climate change. As shown by the Global Vulnerability Index (2019), Honduras is the second most affected country in terms of climate change. Although there haven't been far-reaching natural disasters in the last five years, the geographical position puts Honduras at constant climatic risk.

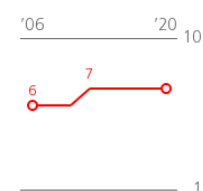
Honduras also suffers high levels of violence, for which there are a variety of reasons: easy access to weapons, the presence of the Maras and the increasing pressure of drug traffic, which has entered the institutional and political sphere. In addition to the extensive human cost, the deteriorating security situation has taken its toll on the Honduran economy. The World Bank estimates that crime and violence cost the country the equivalent of 10% of GDP annually. The country's low level of human capital and high poverty rates also count as structural constraints to the current leadership's performance. Additionally, Honduras's 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.

The degree of civil society organization is weak, despite a long tradition of civil society activism. Affiliation to organizations advocating human rights, or lobbying for peasants, indigenous people, communities or corporate interests, with political or economic objectives that conflict with the interests of the government or other power groups, is dangerous in Honduras. Civil society activism, which directly challenges the status quo, is met with an iron fist, and frequently murder or other types of violence. The structural difficulties confronted by civil society as a whole are enormous.

There are some civil monitoring mechanisms, including the relatively weak Association for a More Just Society (ASJ), which works with Transparency International on the Corruption Index and other issues. At the political level, there

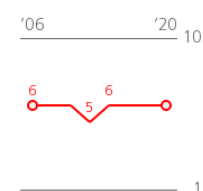
Structural  
constraints

7



Civil society  
traditions

6



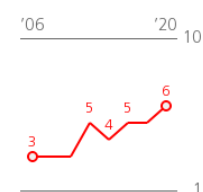


have been several recent protest marches, such as the Torch March and the Convergence Against Continuism. The Convergence Against Continuism brought together a number of civil society organizations and initiatives in protest against allowing the re-election of an incumbent president and later against the alleged electoral fraud. Some 35 organizations, gathered in the National Coalition of Environmental Networks and Organizations (CONROA), continuously protest against the exploitation of mineral mining promoted by the government.

Political polarization has increased sharply over the last two years. This trend has been accompanied by violent protests against the highly questionable re-election of the current president and against the many cases of corruption involving politicians from the ruling National Party. High levels of impunity, brutal repression and the use of force are serious obstacles to promoting dialog between the opposition and the current government. Protests are organized by indigenous, LGBT or other civil society groups against corruption and the violation of human rights. The lack of a separation of powers, violations of rights to information and freedom of expression, militarization, impunity, and the rise of organized crime, especially drug-trafficking gangs, are some of the key factors that make the country fragile and dangerous. Increasing political polarization might point to a future in which political violence will rise again.

Conflict intensity

6



## II. Governance Performance

### 14 | Steering Capability

The government (i.e., the president) has its strategic priorities, which are somewhat consistent concerning economic development, but neglect democratic improvements. Concerning democratization, President Hernández has de facto weakened and damaged democratic institutions, and has not been eager to eliminate endemic problems such as corruption. President Hernández has even attempted to undermine the fight against corruption as evidenced in the fierce fight against MACCIH. The only consistent political strategic priority (apart from securing power) has been combating violence, albeit with undemocratic, excessively harsh means, which have overstepped legal guarantees.

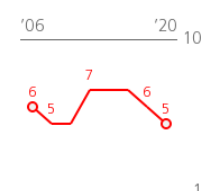
However, while the president has successfully consolidated his power over the government and the state as a whole, this does not translate into strategic policy-making based on long-term planning and strong empirical evidence. Policy is largely based on the need for short-term political gain. This has, in recent times, been most evident with regard to public security policy as well as apparent anti-corruption measures, often announced with big fanfare but with little, or no, follow-up. In fact,

Question

Score

Prioritization

5



recent years have been marked by contradictory statements on both fronts, depending on the audience spoken to. Regarding violence, for instance, there has been a commitment to pursue more broad-based “citizen security” strategies at the regional level, while “iron fist” security policies have been pursued at the national level.

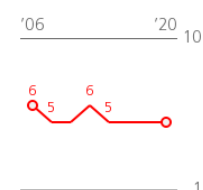
The one exception to this trend is in the sphere of economic policy where, for some time, a policy of economic liberalization has been pursued and the 2014 to 2017 IMF program set benchmarks for necessary reforms.

The discrepancy between the definition of priorities and strategies, and their implementation in practice remains. The government has had no personnel changes and therefore the deficiencies of the previous government have been maintained during the new administration. Most changes usually only involve small adjustments, such as transferring staff from one ministry or government institution to another. For example, in the Ministry of Health, where the largest corruption cases have occurred, an official who had played an important role in the Supreme Electoral Tribunal was installed. This has been perceived as a reward for participation in electoral manipulation. There is still impunity for most officials involved in cases of corruption. Under the new administrative structure, the president has exercised extensive control over the work of the ministries to ensure loyalty in times of institutional crisis without this contributing to the efficiency of the administration. The greatest failure of the government has been in the fight against violence and organized crime. The strong militarization of the security policy did not yield the expected results, and both army officers and prominent government politicians are confronted with drug-trafficking.

There has never been a strong culture of policy learning, successive governments (with few exceptions) almost always simply muddle through and await U.S. advice. The capacity for policy learning deteriorated further during the period under review. As a consequence of strong political polarization, there have been no serious efforts to reorganize public administration and replace incapable officials with better staff. Initiatives in the first half of Hernández’s cycle have been strongly affected by the deterioration in the division of powers. With an executive-controlled Supreme Court, a National Congress attached to political allegiances and with serious accusations of corruption, the possibilities of introducing innovative initiatives to overcome existing problems have been seriously reduced. If anything, there is a kind of “negative” policy learning considering democratic principles, as the government – elected following anti-corruption protests against the former government – has shown its willingness to offer impunity for its allies, not least for the president himself.

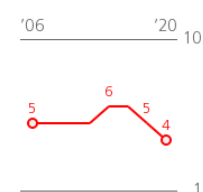
#### Implementation

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#### Policy learning

4



## 15 | Resource Efficiency

The system of clientelism and patronage has not been overcome in Honduras. This impedes the efficient use of scarce public resources. The power elites perceive economic liberalization and privatization as an opportunity to expand the neo-patrimonial state. A large part of the business community has gained control of government institutions and generates (licit and illicit) income at the expense of public resources, especially through state contracts. The so-called Population Security Rate, officially called Fondo de Protección y Seguridad Poblacional (Population Protection and Security Fund), has been in operation since 2012. The rate raises funds directly from citizens to complement security budgets on a temporary basis, although it has been maintained on an indefinite basis. The rate benefits the armed forces, which capture 85% of the funding, and negatively affects small businesses, which also have to pay a similar rate to the maras. Until now, there has not been an external audit on the use of these resources.

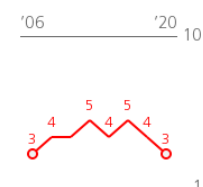
It is usually militant cadres of the PN that participate in the capacity-building programs that exist on all levels. There is no effective system for creating a permanent, nonpartisan staff in the public administration. Staff selection is determined primarily according to political and clientelistic affiliation rather than professional qualification. The administration does not act professionally and rationally. There are laws to enforce merit-based personnel management, but they are often bypassed by informal practices.

The positive elements of coordinating conflicts of interest and the objectives of President Hernández's first administration have been seriously weakened, giving way to excessive authoritarianism and the dominance of the executive branch. The strongest conflicts of interest occur with the rest of the opposition political parties, which continue to reject the legitimacy of the current administration. Under these conditions, there is little capacity to achieve minimum consensus. Hernández seeks to maintain political loyalties within his party and government through authoritarian measures and the use of political clientelism. This situation also affects the work of the Secretariat of General Coordination of the Government (SCGG), which – instead of acting as a coordinating body – has become an instrument of the executive to ensure unilateral control of policies without check and balances.

The Public Prosecutor's Office is responsible for combating corruption. This institution has been severely weakened during the two administrations of Hernández. The most emblematic case is the illegal use of funds from the Honduran Social Security Institute (IHSS) by PN officials, which was discovered following investigations conducted by the National Anti-Corruption Council (CNA). A non-governmental organization that receives financial support from the National Congress, the CNA was inactive for many years, but resumed activities under the

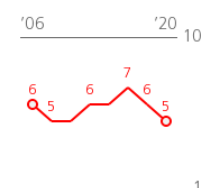
Efficient use of assets

3



Policy coordination

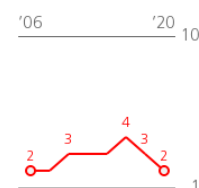
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Anti-corruption policy

2

direction of Gabriela Castellanos. The CNA hired its own investigators to investigate the IHSS and other cases, and then submitted those investigations to the Public Prosecutor's Office and, once the Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH) was created, to the mission as well. Now that President Hernández and the PN have shown their substantial influence over the courts and Congress, the Public Prosecutor's Office has been one of the few potential mechanisms to guarantee accountability over the executive branch, supported by the MACCIH. The attorney general was the only institution and person that could have maintained processes to combat corruption, but the executive and Congress modified the process of selecting the attorney general to reduce the influence of external actors in the fight against corruption. The fight against corruption was externalized and now only the non-governmental CNA has an active role in fighting corruption.



## 16 | Consensus-Building

Due to its systematic violation of the constitution (regarding the re-election of Hernández) and democratic institutions, the Hernández government is no longer capable of creating a minimal consensus in defense of the democratic constitutionality. Hernández has violated fundamental aspects of democratic constitutionality and the separation of powers because his methods of governance (rather than his direct goals) have undermined democracy. Hernández's re-election was supported only by the PN and some small parties (partidos de maletín), which was insufficient for a majority consensus. Therefore, Hernández can only impose his authority through coercion and bribery. From the beginning, Hernández's strategy has combined compromise (rather than consensus) with authoritarian leadership. This has contributed to fragmentation, which has affected all opposition forces including the PL, the only serious counterweight until now.



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. 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 conflictive attitude among broad sectors of society that are seen 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.

However, it is the government itself that, on many occasions, is the key anti-democratic actor. The government systematically undermines the system of checks and balances, which, even at the best of times, has been fragile in Honduras.

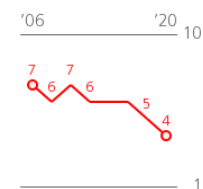
Opposition forces have little control over these powerful anti-democratic actors.

There are parties that 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 more 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 from 2015 to 2018, and – apart from a further militarization of security policies – there is no effective government strategy in sight to cope with this problem.

Income inequality and poverty are the main causes of social cleavage in Honduras. Latent conflicts have been exacerbated by the last elections, with the results of the elections yet to be accepted by a large proportion of the population. The government has used the armed forces to suppress recent protests. The state response to the demonstrations resulted in the violent deaths of at least 22 people. According to OHCHR, 16 of the victims were killed by gunshot wounds fired by state security forces. According to the government, 183 complaints of injury were registered with the National Human Rights Commissioner (CONADEH) and 253 security agents were injured. Rival gangs fighting over territory and control of micro-trafficking are responsible for a significant amount of bloodshed. Agrarian conflicts over access to land continue. However, according to information from the state-run National Agrarian Institute, agrarian conflicts declined in 2018. Conflicts between peasant and indigenous organizations, and mining and energy supply companies persist. In recent years, territorial protests for the defense and preservation of natural resources have been reactivated in territories where the greatest number of concessions for hydroelectric and mining projects are located. Legalization and land-titling programs have not contributed to reducing conflicts because they have been used as instruments of political proselytism to the benefit of the ruling National Party.

Anti-democratic actors

4



Cleavage / conflict management

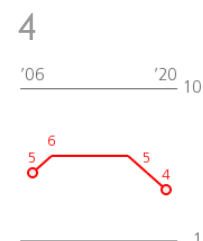
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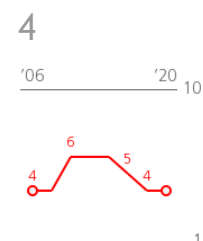
The role of civil society as a partner and consultant in the formulation and execution of strategic objectives has generally deteriorated under the Hernández administrations. Under the two administrations, several civil society organizations have gained a leading role in the fight against corruption and impunity. These include Alianza por la Paz y al Justicia (APJ); Asociación de Organismos No Gubernamentales (ASONOG); Asociación Nacional de Industriales (ANDI); Asociación para una Sociedad más Justa (ASJ); Confraternidad Evangélica de Honduras (CEH); Coordinadora de Instituciones Privadas Pro las Niñas, Niños, Adolescentes, Jóvenes y sus Derechos (COIPRODEN); Federación de Organizaciones No Gubernamentales para el Desarrollo de Honduras (FOPRIDEH); Fundación Alfredo Landaverde; Grupo Sociedad Civil (GSC); MoskitiaPawisaApiska (MOPAWI); Pastoral Social Cáritas de Honduras; Predicar y Sanar (PREDISAN); Proyecto Aldea Global; Transformemos Honduras (TH); Universidad Nacional Autónoma de Honduras (UNAH); and Visión Mundial Honduras (VMH). Initially, the Asociación para una Sociedad más Justa (ASJ), a chapter of Transparency International (TI) in Honduras, promoted the formation of judges specialized in cases of corruption, so that the judicial system could count on sufficient resources for sanctioning corruption. In 2016, this initiative was supported through the creation of MACCIH, which is part of the Organization of American States (OAS). The Federation of Non-Governmental Organizations for the Development of Honduras (Federación de Organizaciones no Gubernamentales para el Desarrollo de Honduras, FOPRIDEH) has 80 affiliated Honduran civil society organizations, located all over the country, and dedicated to several dimensions of national, regional and local development. 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) highlight the risk human rights defenders face in Honduras. Civil society faces intimidation and threats, and repression of the freedoms of assembly and expression when powerful groups see themselves threatened.

In 2018, the Inter-American Commission on Human Rights (IACHR) noted the excessive and abusive use of force by the state to disperse public demonstrations and declared it a sign that the government favors repression over dialog. The post-electoral context reflects a worsening political crisis and lack of confidence in Honduran institutions. The IACHR report recommends the establishment of a more formalized political dialog in order to overcome the political crisis caused by allegations of electoral fraud and use of violence to suppress subsequent protests. The political leadership has not recognized the necessity of addressing past acts of injustice. Until today, reconciliation largely involves expressing regret at acts of violence against leaders of civil society organizations and promising to resolve these crimes. In general, the crimes remain unpunished.

#### Civil society participation



#### Reconciliation



## 17 | International Cooperation

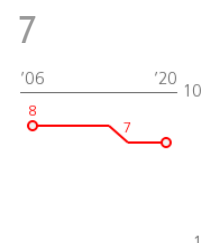
Honduras has one of the highest volumes of official development assistance (ODA) of any Latin American country. International cooperation in Honduras falls into two broad categories: non-reimbursable cooperation and reimbursable cooperation. Honduras has received non-reimbursable cooperation from: Germany, Spain, the United States, the European Union, Sweden, South Korea, Canada, Denmark, China, Taiwan, Finland, Brazil, Norway, Holland, Italy, Ireland, Japan, the United Kingdom, Switzerland, UNFPA, IAEA, UNAIDS, OAS, WFP, UNDP, UNICEF and CARE, among others. The country receives various forms of international cooperation, such as direct budget support, and resource baskets within the framework of sector-wide approaches (SWAPS), among others. Sector-wide approaches have been seen as a modality for harmonizing and aligning cooperation. The most important example is the Education for All (EFA) program. This program is financially supported by bilateral sources (Canada, the United States, Japan, Germany, Spain and Sweden) in a common multilateral fund with the World Bank. In addition, it has a common operations manual, single reports for all donors, and single goals and indicators focused on achieving SWAP goals in education. In the case of health care, mention should be made of the Chagas Disease Control Program, with similar criteria to those of EFA, especially with regard to a single annual operational plan and joint evaluations.

In March 2018, the Non-Refundable External Cooperation Committee was created, which is composed of three institutions: the Secretariat of General Coordination of the Government, the Secretariat of Finance, and the Secretariat of Foreign Affairs and International Cooperation. During 2018, the government signed 52 agreements and 43 cooperation projects, resulting in the management of \$276.17 million in non-reimbursable cooperation. Both international cooperation and civil society organizations see serious deficits in the adequate and transparent use of international cooperation resources. These limitations can hardly be overcome with the lukewarm institutional reforms carried out.

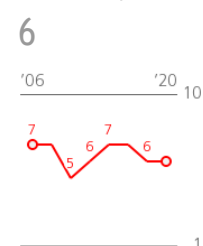
The Hernández government has lost much of the limited credibility it had gained in recent years. Widespread corruption at all levels of government, the involvement of officials and family members in international drug and arms trafficking, the failure of the MACCIH, and the irregularities of the last electoral process have meant that the current government is not perceived as a reliable partner for international cooperation.

Notwithstanding, criticism from the European Union has been rather mild. Meanwhile, the U.S. Trump administration has not acknowledged the often-flagrant human rights abuses committed by the Honduran government and has instead focused attention almost exclusively on immigration, without establishing a link between the

Effective use of support



Credibility





two. On the other hand, the majority of recognized human rights organizations, including Transparency International, the UNO and Human Rights Watch, have criticized the Honduran government for not fulfilling its international obligations concerning these aspects.

However, Honduras has maintained efforts to recover its international reputation by actively participating in important international initiatives. In February 2019, Standard & Poor's assessed the perspective of Honduras's qualifications as stable and rated its long- and short-term sovereign qualifications as B+ and BB, respectively.

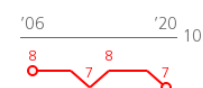
Honduras has maintained its efforts in regional cooperation, especially with its neighbors Guatemala and El Salvador, because they face the same challenges, namely violence, migration and drug-trafficking. The three governments promote the Alliance Plan for the Prosperity of the Northern Triangle (Plan Alianza para la Prosperidad del Triángulo Norte, PAP). In order to foster this plan, the U.S. Congress approved two payments of \$750 million for the creation of job opportunities and for 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. However, the "elected" government defied the OAS suggestions to verify the 2017 election results or to hold new elections, thereby demonstrating some disregard of the rules set by the Inter-American Democratic Charter.

Honduras is also a full member of the Community of Latin American and Caribbean States (CELAC). At the subregional level, Honduras enjoys full membership in the Central American Integration System (Sistema de la Integración Centroamericana, SICA) and maintains close bilateral relations with all countries on the isthmus (including Panama and Belize). The successful negotiation of an association agreement between Central America and the European Union 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 the subregional (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.

Regional  
cooperation

7



1



## Strategic Outlook

Honduras faces substantial challenges to achieving medium- and long-term transformation. The most significant challenge is the fight against generalized violence, which – together with widespread impunity – negatively affects all aspects of transformation. There have been few signs that democratic institutions can be re-established in the short term. The concentration of power in the presidency, and the president's strong control of the legislature and judiciary has led to, and will continue to lead to, increased political polarization. Legislative decisions have further restricted freedom of expression. The use of force by the military police with the help of the army to suppress protests weakens political stability.

After achieving economic growth rates of almost 5% in 2017, the economic growth rate may slow to 3.6% in 2019, despite macroeconomic stability and inflation remaining within predicted indicators. This situation can only be compensated for by an increase in income from remittances in view of the fact that the level of exports has decreased due to low international coffee prices. The evolution of the economy will affect the savings rate and gross investment slightly. A positive effect for the economy will be the expansive fiscal policy of the United States and the positive financial conditions at the international level.

High levels of poverty and inequality are driving increasing rates of emigration. Given that the economy is growing very weakly, it is unlikely that the formal economy will be able to absorb enough workers to significantly cut emigration rates in the near future. Due to the increase in the fiscal deficit to 3.4% of GDP, public resources will not be sufficient to improve access to basic services (e.g., education and health care). As such, public discontent will continue to increase. Honduras needs strong investment in education and health care to improve its Human Development Index.

The electoral crisis has produced a setback not only at the institutional level but also in terms of the efficiency of public administration. The obstruction of MACCIH shows that the government has no interest in seriously combating corruption. If the administration of justice is not improved, rates of violence and corruption will not be reduced in the medium term. Levels of inefficiency in public administration and the strong influence of economic power groups are serious obstacles to transformation. Drug-trafficking and organized crime are serious problems in which political elites are involved. In this context, the country needs to promote political consensus in order to strengthen public institutions.