

# Honduras

## Paths Toward Building a Resilient Society

### Systematic Country Diagnostic Update





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# Abbreviations and Acronyms

<b>AD</b>	Afro-descendant	<b>IDB</b>	Inter-American Development Bank
<b>BCH</b>	Central Bank of Honduras	<b>IFC</b>	International Finance Corporation
<b>BPO</b>	business process outsourcing	<b>INE</b>	Instituto Nacional de Estadística
<b>BTI</b>	Bertelsmann Transformation Index	<b>IPAH</b>	Indigenous Peoples and Afro-Hondurans
<b>CCDR</b>	Country Climate and Development Report	<b>LFP</b>	labor force participation
<b>CCT</b>	conditional cash transfer	<b>LOP</b>	Organic Budget Law (Ley Orgánica de Presupuesto)
<b>COMRURAL</b>	Rural Competitiveness Project	<b>LULUCF</b>	Land use, land-use change, and forestry
<b>CONASA</b>	Drinking Water Supply and National Council	<b>MACCIH</b>	Mission to Support the Fight Against Corruption and Impunity in Honduras
<b>DFS</b>	digital financial services	<b>MSME</b>	micro, small, and medium enterprise
<b>DGPMF</b>	Dirección General de Política Macro Fiscal	<b>MTFF</b>	medium-term fiscal framework
<b>ENEE</b>	Empresa Nacional de Energía Eléctrica	<b>NDC</b>	Nationally Determined Contribution
<b>ENIGH</b>	National Income and Expenditure Survey	<b>NEET</b>	not in the employment, education, or training
<b>EPHPM</b>	Encuesta Permanente de Hogares de Propósitos Múltiples	<b>NFPS</b>	nonfinancial public sector
<b>FDI</b>	foreign direct investment	<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>FPIC</b>	Free, Prior, and Informed Consent	<b>PER</b>	Public Expenditure Review
<b>FRL</b>	Fiscal Responsibility Law	<b>PPP</b>	public-private partnerships
<b>FRS</b>	Fiscal Risk Statement	<b>PROSASUR</b>	Promoting Food Security in the South
<b>FTZ</b>	free trade zone	<b>SANAA</b>	Servicio Autonomo Nacional de Acueductos y
<b>GCI</b>	Global Competitiveness Index		
<b>GDP</b>	gross domestic product		
<b>GVC</b>	global value chain		
<b>ID</b>	identification		

<b>SCD</b>	Systematic Country Diagnostic	<b>SEZ</b>	special economic zone
<b>SCGG</b>	Secretaría de Coordinación General de Gobierno	<b>SOB</b>	state-owned banks
<b>SEDLAC</b>	Socio-Economic Database for Latin America and the Caribbean	<b>SOE</b>	state-owned enterprise
		<b>WJP</b>	World Justice Project
		<b>WSS</b>	water supply and sanitation

All dollar amounts are in US dollars unless otherwise indicated.

# 1. Executive Summary

**The challenges and opportunities currently faced by Honduras remain broadly in line with those identified in the country’s Systematic Country Diagnostic (SCD), prepared in 2015.** Since 2015, substantive analytic work has deepened the understanding of challenges and opportunities but not materially modified the SCD’s findings. The COVID-19 pandemic, coupled with two Category 4 hurricanes—Eta and Iota—in fall 2020, further exposed and compounded the country’s fragilities. This SCD Update highlights recent developments in macroeconomic, sectoral, and poverty-reduction performance and the status of Honduras’s reform efforts. It is best read in conjunction with the 2015 SCD.

## 1.1 Recent Developments

**Honduras remains one of the poorest and most unequal countries in the Western Hemisphere and faces increasing levels of extreme poverty in both urban and rural areas (see appendix C).** Poverty reduction under the country’s official

poverty line was relatively stagnant between 2014 and 2019. In 2019, 25.2 percent of the Honduran population lived in extreme poverty and almost half (48.0 percent or 4.4 million people) lived in poverty, based on the official poverty lines.<sup>1</sup> Rural poverty is concentrated in the Dry Corridor area and in departments with high shares of ethnic minorities. Inequality continues to be among the highest in the Western Hemisphere.

**The crises in 2020 exacerbated the country’s existing economic and social challenges.** Real gross domestic product (GDP) declined by 9.0 percent year-on-year in 2020, down from the 2015–19 average of 3.8 percent growth. Employment and income sank,<sup>2</sup> resulting in the highest levels of food insecurity in the Latin America and the Caribbean region. In addition, inequality rose and human capital deteriorated as fewer children have been attending school because of the COVID-19 pandemic. While data are not yet available, the impacts on poverty and human capital are expected to be sobering.

**Some of the positive economic trends that had been achieved since the 2015 SCD eroded with the effect of the pandemic and hurricanes amid a more challenging political and governance context.** Honduras implemented prudent macroeconomic policies between 2015 and 2020, anchored in the Fiscal Responsibility Law, a crawling peg with ample foreign exchange, and a sound financial sector, which led to an upgrade of its sovereign credit rating.<sup>3</sup> Real GDP growth averaged 3.1 percent over the past decade, mainly driven by remittance-fueled private consumption. The twin shocks of 2020, however, led to a significant increase in public debt and fiscal risks, including those related to the electrical company, Empresa Nacional de Energía Eléctrica (ENEE). GDP contracted sharply in 2020, though some economic sectors, such as maquila<sup>4</sup> and telecommunications, proved resilient.

**Governance and the quality of institutions deteriorated further since 2015.** The political polarization rooted in the unresolved issues of the 2009 political crisis was compounded by the contested presidential reelection in 2017 and allegations of high-level public corruption combined with strong, underlying vested interests from a variety of groups. Recent developments show a decline in the quality of governance and institutions<sup>5</sup> (see appendix A, figure A.1) under the persistent influence of patronage and state capture,<sup>6</sup> undermining citizens' trust,<sup>7</sup> affecting the capacity for service delivery, fostering inequality and exclusion, and hampering private sector development. Inadequate institutions and policy-making processes were further weakened by elite capture, preventing the implementation of institutional reforms focused on accountability and inclusion, creating a vicious cycle. Combined with continuing challenges of violence and impunity, a picture emerges of rising fragility and growing inequality in Honduras, resulting in a deteriorating social contract. The shocks in 2020 further intensified

institutional weaknesses in the country and stalled progress in key reforms, including at the sectoral level.

## 1.2 Priorities Ahead

**The 2015 SCD identified three policy levers and three complementarity measures (see table 1.1) to address Honduras's challenges.** The track record of reforms since 2015 is mixed at best, with progress made in a few areas, partial progress in others, and limited progress in many sectors. All priorities identified in the 2015 SCD remain valid. Recent developments suggest additional emphasis in a few areas: establishing comprehensive migratory policy (to enhance possible benefits of migration), boosting society/community engagement (to increase the demand for good governance), enhancing support to the private sector (to boost growth), and fostering sectoral actions/reforms (to promote resilience). The SCD Update introduces two new filters: the *feasibility* of the measures and the relative *urgency* to act. These filters do not reduce the number of areas that need attention, but they promote a focus on specific entry points in each area that can inform policy in the short to medium term and open the door to engage on broader reforms in the long run. (The new elements appear in italics in table 1.1).

**The overall vulnerability of the economy and society stands out as Honduras's overriding challenge.** Returning to the prepandemic socioeconomic growth patterns would result in an insufficient generation of quality jobs to satisfy the rapid growth of the labor force. In this scenario, the pressure to migrate will remain, and crime and violence will persist, particularly if impunity remains widespread. Conversely, a build-back-better-and-greener agenda aimed at yielding more and better-quality jobs could contribute to breaking the vicious cycles identified in the SCD and addressing vulnerability through a resilient recovery. While the broad reform agenda has stalled,

**Table 1.1. Policy Levers and Entry Points to Address the Vicious Cycles**

Policy Levers		Entry Points*
Crime and growth	<ul style="list-style-type: none"> <li>Strengthen violence prevention and law enforcement.</li> </ul>	<ul style="list-style-type: none"> <li>Create opportunities for youth in urban areas, building community infrastructures and public spaces</li> <li>Customize soft accompaniment policies to be determined</li> </ul>
Migration and growth	<ul style="list-style-type: none"> <li>Improve education and skills to compete and <i>establish a comprehensive policy on migration.</i></li> </ul>	<ul style="list-style-type: none"> <li>Mitigate the negative effects of migration (focusing on drivers of migration, conditions of living of migrants, and so on) while optimizing the benefits (for example, leverage remittances, link with diaspora, and so on).</li> </ul>
Poor governance and growth	<ul style="list-style-type: none"> <li>Strengthen the quality of institutions by supporting a separation between the public domain and private interests through                             <ul style="list-style-type: none"> <li>strengthening the rule of law and the judiciary</li> <li>building capacity</li> <li>improving the accountability framework</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Strengthen access to justice in the lower courts; bolster the capacities of anti-corruption units.</li> <li>Mandate the publication of asset declarations of public servants, establish clearer rules and accountability on conflicts of interest, and improve access to information.</li> <li>Reinforce transparency and openness in the use of public resources and policy making; build monitoring and evaluation systems and statistical capacity.</li> <li>Foster accountability through capacity building of civil society and support enhanced community engagement approaches in local development.</li> </ul>
Complementary Measures		Entry Points*
Boosting growth	<ul style="list-style-type: none"> <li>Promote and sustain macroeconomic stability, including fiscal sustainability.</li> <li>Improve infrastructure</li> <li><i>Support the private sector through trade and regulatory reform.</i></li> </ul>	<ul style="list-style-type: none"> <li>Improve the efficiency of public expenditures.</li> <li>Manage and mitigate fiscal risks from SOEs, notably ENEE.</li> <li>Strengthen infrastructure resilience and improve rural access and connectivity.</li> <li>Leverage successful maquila experiences to inspire relevant targeted reforms.</li> <li>Strengthen links between the maquila sector and the rest of the economy.</li> </ul>
Fostering inclusion	<ul style="list-style-type: none"> <li>Strengthen the targeting and coverage of conditional cash transfers.</li> <li>Improve access to basic services, <i>in particular, health and education.</i></li> <li>Promote active labor market policies to improve job matching, particularly for low-skilled workers, <i>while fostering economic opportunities, particularly in poor and remote areas.</i></li> </ul>	<ul style="list-style-type: none"> <li>Expand the coverage of CCTs, while strengthening payment mechanisms.</li> <li>Safely reopen schools and adjust instruction to learning levels.</li> <li>Improve preparedness to health emergencies and access to high-quality primary care services.</li> <li>Launch labor-intensive works programs, beginning with areas most affected by hurricanes, and scale up and broaden agriculture-linked activities in rural areas building on the COMRURAL model</li> </ul>
Promoting resilience	<ul style="list-style-type: none"> <li>Strengthen prevention and disaster risk management, <i>notably in the face of climate change.</i></li> </ul>	<ul style="list-style-type: none"> <li>Strengthen risk assessment and consolidate institutions in charge of risk management for strengthened service resilience.</li> </ul>

\*Some entry points remain to be determined—that is, they are identified as knowledge gaps.

Note: CCT = conditional cash transfer; COMRURAL = Honduras Rural Competitiveness Project; ENEE = Empresa Nacional de Energía Eléctrica; SOE = state-owned enterprise



successes in specific areas (fiscal and disaster risk management, for example) show that progress is possible.

**Improving governance and the quality of institutions remains at the core of the development challenge for Honduras and will require addressing issues of state capture and impunity.** Clear leadership is required to strengthen the rule of law, tackle its uneven and discretionary application, bolster accountability mechanisms, and create a clear separation between public and private interests, as the country faces increasing risks of fragility. This would require progress in the following areas: strengthening the independence of the judiciary and regulatory agencies; bolstering capacities of prosecutorial units; improving transparency of the legislative and policy-making processes; further investing in anti-corruption units; introducing measures to enhance the capacity for citizens to hold public and elected officials accountable; and strengthening capacities for digital and open government.

**Reducing levels of crime and violence remains critical.** Although the homicide rate has declined, it remains among the highest globally (see appendix A, figure A.2). Greater attention must be placed on the drivers of crime and violence, including efforts to promote social cohesion, trust, and social capital within vulnerable communities, in addition to strengthening institutions.

**The increasing migration flows and incoming remittances are closely linked to worsening opportunities at home (box 1.1).** The SCD emphasis on education and skills to contain migration, although well placed, failed to gain traction; improvement in education outcomes has been negligible while the labor market has been increasingly challenged to absorb a rapidly growing labor force. Rather than focusing only on reducing migration flows, it will be important to identify

short-term measures to maximize the economic impact of remittances and knowledge spillovers to the private sector from US migrants.

**Boosting growth that creates jobs rests on buttressing the capacity of the private sector and enabling the movement of labor from lower to higher productivity activities.** The past success of maquilas is an example on which to build. Strengthening capacity to generate employment can be centered around three initiatives.

- *First, reversing the recent weak trends in trade and foreign direct investment (FDI).* The experience in the maquila sector can be leveraged through further improvements in trade facilitation (logistics, customs, taxes, and so on) and connectivity to external markets to foster aggregate economic activity. Given the national savings shortage and the low level of technology in the country, the contribution of FDI will be critical. Progress in trade and FDI facilitation will support the diversification and sophistication of the economy, generating quality employment. FDI and trade would be aided by reducing institutional uncertainty, thus, supporting the need to improve governance and the rule of law.
- *Second, reducing the costs of operation in the formal economy and fostering competition.* Further leveraging of the maquila experience can be achieved by strengthening the links with the domestic economy. Onerous labor legislation that hinders private sector expansion, serves as entry barriers for the less skilled, and boosts informality should be revised. Enhancing the use of digital technology would help with greater productivity in the public and private sectors, including through innovations that facilitate access to credit for micro, small, and medium enterprises (MSMEs).
- *Third, maximizing the economic impact of remittances.* Given their significant size,

### Box 1.1. Migration

Emigration has accelerated in recent years. Since 1990, the number of Honduran immigrants in the United States (the main destination country) has grown almost sixfold, from 115,000 in 1990 to 630,000 in 2015, and over 700,000 in 2020. The number of Honduran refugees has increased almost 20-fold in the past decade (from 1,166 in 2009 to 26,351 in 2019), while the number of asylum seekers has tripled every two years (from 997 in 2009 to 123,011 in 2019). Among the drivers of this process are crime and gang violence, gender-based violence, family reunification, and higher incomes in destination countries. Climate change—compounded by natural resource degradation—and limited access to basic services and job opportunities are expected to continue fostering migration from rural areas, to both urban centers within Honduras and other countries. The demographic profile of migrants has changed, with most people traveling in family units and a growing number of unaccompanied children.

Source: Q. Wodon, et al., eds., *Climate Change and Migration: Evidence from the Middle East and North Africa* (Washington, DC: World Bank, 2014); IOM, “Niñez y Adolescencia Migrante No Acompañada Retornada en el Triángulo Norte de Centroamérica” (Northern Triangle Migration Management Information Initiative, San Salvador, El Salvador, International Organization for Migration, 2016), <https://mic.iom.int/webntmi/descargas/descargasoim/NT-MI-EHMH-ES-Vol2-NNAMIGRANTENOACOMPA percentC3 percent91ADA.pdf>; Barbora Šedová, Lucia Čizmaziová, Athene Cook, “A Meta-Analysis of Climate Migration Literature.” CEPA Discussion Papers; 29, 2021. <https://doi.org/10.25932/PUBLISHUP-49982>

remittances can be a powerful driving force for development and poverty reduction. Policies incentivizing more productive use of remittances—such as investment, reconstruction, and so on—could be beneficial to the country in the short term. However, if structural constraints to private sector development are not addressed, migration could be further fueled in the future.

#### **Maintaining macroeconomic stability and managing and mitigating fiscal risks will be important for recovery and reconstruction.**

Continued implementation of prudent macroeconomic policies, including through the approval of the Fiscal Responsibility Law (FRL) and structural reforms, is warranted and will require continuous adherence to the FRL, improvements in public expenditure efficiency, renewed revenue mobilization efforts, continued reliance on concessional

external financing, and improvements in fiscal risk management.

#### **At the same time, infrastructure improvements remain pertinent.**

The implementation of the 2014 reform and the improvement of the financial situation of ENEE are urgent, including through renegotiation of contracts with producers and revision of the tariff structure to improve quality and affordability. Major gains are feasible in water delivery, including in the quality of the relevant institutions. Enhancing the role and capacity of the information economy will contribute to improved public sector delivery, better governance, increased finance for firms and households, and wider adoption of new technologies. Finally, improving rural roads and building resilient infrastructure will contribute to opening up rural areas and fostering opportunities. These improvements should be

financed with support from private investment as much as possible.

**To foster inclusion, continuing economic assistance to the poor and ensuring the right targeting remain a necessity.** Progress has been achieved in targeting assistance, but the institutions that provide economic assistance need to be protected and strengthened to minimize errors of inclusion and exclusion and to foster employment. Immediate efforts are needed for education to resume fully after the COVID-19 crisis, while greater health resilience can build on the efforts to manage the pandemic. Both have the potential to increase human capital over the long term. Expanding opportunities for low-skilled labor and those at the bottom of the income distribution calls for attention to the generation of nonfarm jobs in rural areas and in areas of the country with high rates of absolute poverty—which disproportionately means Indigenous Peoples and Afro-Hondurans.

**The SCD’s call for “strengthening prevention and disaster risks management” is even more timely today.** This effort should build on the consistent work undertaken for more than two decades to strengthen prevention, which most probably contributed to mitigating the human cost of the 2020 hurricanes. Natural disasters are recurrent, and their frequency is likely to increase in the context of climate change. In the short term, managing the impact of the two hurricanes will require attention to the physical reconstruction of more resilient assets and to building the institutional framework to manage future natural shocks. These activities provide an opportunity to generate employment and to deliver training. Attention to the population at the lower end of the distribution of income should be a priority.

## 1.3 Process and Structure of the SCD Update

This SCD Update draws on existing and new analysis, publications, extensive consultations, and ongoing dialogue with public and private sector stakeholders in Honduras. Throughout the discussions, there was broad consensus on the diagnosis of challenges, in particular the country’s weak governance as well as the priorities ahead. The SCD Update identifies that pertinent knowledge gaps remain and that new ones are emerging, such as information on the impacts of climate change and migration, on which policies are most effective to reduce crime and violence, and on what institutional determinants support state capture (see appendix B).

## Notes

1. Honduras has updated its official poverty measurement methodology using international best practice (see appendix E). The previous methodology, used in the 2015 SCD, would suggest 64.7 percent of the population lived in poverty in 2019 instead of the new, more precise estimate of 48.0 percent in 2019. Note that the new methodology (and corresponding updated poverty lines) coincidentally results in a 2019 poverty rate that is similar to the 49.0 percent estimated under the international poverty line of \$5.50 per day.
2. The data are not available to measure the specific impacts on vulnerable populations that were likely also harmed by the pandemic and the hurricanes: Indigenous Peoples, Afro-Hondurans, and persons with disabilities.
3. Honduras’s sovereign credit rating was upgraded by Standard & Poor’s to BB from B+ in July 2017 and by Moody’s to B1 from B2 in September 2017. The agencies maintained the ratings with a stable outlook in 2019, 2020, and 2021.
4. *Maquilas* are businesses that are allowed to assemble, manufacture, or process raw materials and export the finished product largely free of duty and tariffs. They are

present throughout Latin America and have been particularly successful in Honduras in generating growth and creating employment. The manufactured goods are exported to other countries, mainly the United States and Canada.

**5.** Bertelsmann Transformation Index (BTI), 2016–20. The BTI is a measure of the development status and governance of political and economic transformation processes in developing and transition countries around the world. A description of each index and its construction can be found at <https://bti-project.org/en/methodology>.

**6.** See the *Global Competitiveness Report* published by the World Economic Forum (WEF), 2018.

The report can be found at <https://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>.

**7.** Two sources: (1) Latin American Public Opinion Project (LAPOP) “Barometro de las Americas” (Vanderbilt University, Nashville, TN, 2019); and (2) WEF, *Global Competitiveness Report*.

## 2. Poverty and Equity

### 2.1 Trends in Poverty Reduction and Shared Prosperity

**Honduras continues to be one of the poorest and most unequal countries in Latin America and the Caribbean; its middle class remains one of the smallest in the LAC region, and poverty reduction lags other Central American countries (see appendixes C and D).** Honduras faces low levels of economic and social inclusion, and lower-income households continue to be vulnerable to shocks. The latest available international headcount estimates show that in 2019, 49 percent of the population was living on less than \$5.50 per day (the upper middle-income global poverty line) before the double impact of the COVID-19 pandemic and hurricanes.

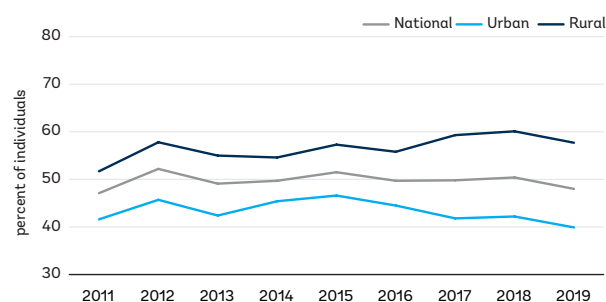
**Poverty reduction has been limited in recent years.** In 2019, 48.0 percent of Hondurans lived below the country's official poverty line, with 25.2 percent living in extreme poverty (see

figure 2.1, appendix E, figure E.1, and appendix F, figure F.1). Poverty has shown little decline since 2014, while extreme poverty has increased slightly, from 24.8 percent in 2013. Extreme poverty has been increasing in rural areas since 2014 and in urban areas since 2017. Most poor Hondurans continue to live in rural areas (with rural poverty heavily concentrated in the Dry Corridor and in departments with a higher share of ethnic minorities)<sup>1</sup> and still overwhelmingly rely on agriculture as their principal livelihood (see appendix F, figure F.2).

**Income growth between 2014 and 2019 was low in Honduras for both the bottom 40 percent of the income distribution and the population as a whole, while income inequality has been relatively stable since 2013 (see appendix F, figures F.3 and F.4).** The income growth of the bottom 40 percent between 2014 and 2019 is less than half of what it had been in the mid-2000s. At the subnational level, urban inequality has been generally declining since 2014, while rural inequality



**Figure 1.1. Moderate Poverty**



Source: World Bank estimates using the Encuesta Permanente de Hogares de Propósitos Múltiples (EPHMP).

Note: Poverty: share of the population whose household per capita income is below the poverty line.

has risen sharply, from a Gini coefficient of 43.1 in 2014 to 48.6 in 2019.

## 2.2 Causes of Poverty and Drivers of Poverty Reduction

The small decline in moderate poverty was driven by growth in household per capita income, while the slight increase in extreme poverty was primarily the result of an increasingly unequal distribution of income within the extreme poor population (see appendix figure G.1). Urban households were helped by higher income growth, a better distribution of income, and beneficial price changes, with employment and income increases in construction and manufacturing. However, the recent deceleration in manufacturing has hurt extreme poor urban households. Meanwhile, rural households faced a worsening distribution of income and declining real incomes that increased both rural poverty and rural extreme poverty, which were adversely affected by the deceleration in the agricultural sector, including coffee production.

**The declining dependency rate (the demographic dividend), a component of household**

**per capita income, was the strongest factor in the reduction of poverty in 2014–19.** Overall, the demographic dividend attenuated the labor and nonlabor income declines in rural areas and helped reduce moderate poverty. The demographic dividend also had beneficial impacts for the extreme poor, along with increased employment and higher remittances, but these were not enough to compensate for the negative poverty impact of declining labor and nonlabor (excluding remittances) income (see appendix figure G.2). Honduras's demographic transition, however, can also be a risk, since the relatively faster growth of the labor force could put stress on job generation if not enough jobs are available.

**Remittances and migration play an increasingly important and complex role in the Honduran economy.** Remittances had a positive but small impact on poverty in 2019, as most remittances went to nonpoor households for their consumption. Migration trends to the United States continued, reaching 8.3 percent of the Honduran 2019 population, while per capita remittances continued to skyrocket into 2019 and decelerated (although still increasing) during the 2020 pandemic (see appendix G, figures G.3 and G.4).

## 2.3 Limited and Unequal Access to Basic Services

**High malnutrition and unequal access to basic services remain key barriers for human capital formation and inclusive growth, starting with health.** Honduras was assessed as the least-prepared country in the Latin America and the Caribbean region to cope with the pandemic, ranking 156th out of 195 on the 2019 Global Health Security Index.<sup>2</sup> The quality in the provision of and access to care is remarkably lower among the lowest income quintiles, although coverage of certain primary care services is relatively high. Declines in vaccination coverage<sup>3</sup> and disruptions in essential

maternal and child health services could lead to a 37 percent increase in child mortality and an 80 percent increase in maternal mortality.<sup>4</sup>

**Unequal access to infrastructure services has inhibited inclusive growth in Honduras, which has been exacerbated with the 2020 lockdown measures.** Access to adequate water and sanitation services remains highly unequal, and service quality is poor, a situation likely to deteriorate with the impact of climate change if nothing is done.<sup>5</sup> A wide disparity of coverage between the poor and nonpoor and the urban and rural populations remains (see appendix H). Quality sanitation is insufficient, with only 13.7 percent of sewer connections treated.<sup>6</sup> This situation stems from a lack of investments<sup>7</sup> and insufficient progress in the implementation of the 2003 and 2009 reforms. Government measures to mitigate the effects of the COVID-19 pandemic<sup>8</sup> have resulted in falling revenues for service providers and added larger financial requirements.<sup>9</sup> As of 2019, 14 percent of rural households did not have access to *electricity*, affecting particularly the poorest (see appendix H). Similarly, one-quarter of the rural populace<sup>10</sup> lacks access to an all-year *transitable road*. Finally, *internet access and usage* are low while costs are high (see appendix H and appendix figure I.1). Similarly, broadband connectivity is limited, with an average of 73 mobile cellular subscriptions per 100 people compared to more than 100 subscriptions per 100 people in the Latin America and the Caribbean region.<sup>11</sup>

**Despite high spending on education, Hondurans continue to face deep and persistent disparities in access to and quality of education.** Access to primary education has increased, but low enrollment for children under 5 years of age and between 12 and 17 years remains strongly associated with family income and location (see appendix I, figures I.2 and I.3). Only 61 percent of persons with disabilities have attended primary education or higher compared to 85 percent for

persons without disabilities (50 versus 79 percent in rural areas).<sup>12</sup> Challenges in the sector have been recently compounded by school closures in response to the pandemic and the hurricanes, with potential long-term consequences that could result in learning-adjusted years of schooling falling from 6.4 pre-pandemic to 4.7 years.<sup>13</sup>

**The enactment of policies and strategies for the social inclusion of Indigenous Peoples and Afro-Hondurans remains limited.** The National Policy Against Racism and Racial Discrimination and for Integrated Development of Indigenous Peoples and Afro-Hondurans, adopted in 2016, has yet to materialize in reforms within national institutions to ensure that these objectives are met.

## 2.4 Lack of Opportunities in the Labor Market

**Honduras' labor force participation rate, particularly for women, remains among the lowest in the Latin America and the Caribbean region while workers are concentrated in low-productivity jobs.** Honduras has the fourth-lowest labor force participation (LFP) rate among 15- to 64-year-olds in the region, at 66 percent in 2019 (see appendix J, figure J.1), with less than 60 percent participation among the bottom 40 percent of the income distribution. It also has the second-highest LFP gender gap in the region behind Guatemala.<sup>14</sup> Workers with primary education or less are concentrated in agriculture, while workers with tertiary education are in the service sector.<sup>15</sup> Approximately half of Honduran workers are either in “elementary” occupations<sup>16</sup> or in services and market sales, while only a third are in skilled, high-paying jobs in agriculture, industry, or services.<sup>17</sup> As of 2019, services and retail continued to be the leading sectors for female employment.

**Unemployment has increased, particularly for women and youth, and informal employment**

**continues to dominate across all sectors.** Unemployment is particularly high among the poor (7.5 percent), women (8.7 percent), and workers ages 15–24 (11.3 percent), but it has increased for all groups when comparing 2014 to 2019 (see appendix J, figure J.2). Less than a fifth of workers are employed in the formal sector, essentially in large firms, while the informality rate reaches 96 and 99 percent among poor and extremely poor individuals, respectively (see appendix H). Honduras's labor force is particularly vulnerable to the COVID-19 crisis because most workers lack access to unemployment insurance or labor contracts and often rely on day-to-day work that cannot be performed at home.

**Ethnicity and race, and likely disability,<sup>18</sup> also affect employment outcomes in Honduras.** Afro-descendants (ADs) in Honduras have lower salaries<sup>19</sup> and primarily work in the agriculture, tourism, or service sectors with limited social safety nets. Unlike in other countries, educational inequality is not the main factor explaining differentiated outcomes (ADs in Honduras have on average more years of formal education than non-ADs).

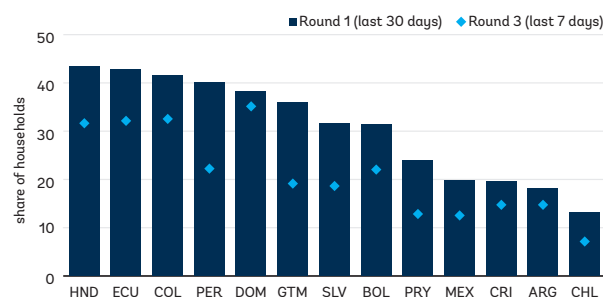
**The public sector wage premium and the gender wage gap both remain high, although they are declining.** During 2014–17, the government achieved a significant retrenchment of the wage bill<sup>20</sup> (about 3 percentage points of GDP) and in 2019, the authorities established a ceiling on the budgetary central government wage bill, in line with the FRL. Despite these efforts, public expenditure on remuneration remained the highest among structural and aspirational peers,<sup>21</sup> accounting for around 11.3 percent of GDP in 2019 or 35.2 percent of total spending, absorbing about 43.7 percent of tax revenues in 2019.<sup>22</sup> In 2019, public sector workers earned 23 percent more than formal workers in private firms (versus 32 percent in 2014) and 49 percent more than informal workers (versus 56 percent in 2014) (see

appendix J, figure J.3). In 2020, the government approved a centralized mechanism for salary negotiations to guide decisions on nominal wage increases in line with the FRL, which could help contain the wage bill and support the planned return to the FRL target in 2023; however, practical measures have yet to be taken.<sup>23</sup> The gender wage gap has modestly declined since 2013; however, the average wage for male workers is approximately 9 percent higher than that of female workers, with important differences across sectors (see appendix J, figure J.4).

**Although there has been a shift toward jobs in services and industry between 2014 and 2019, employment in agriculture increased among the rural poor amid a decline in overall agricultural incomes.** Self-employment in agriculture is the least-remunerated job, followed by informal wage work, nonagricultural self-employment, and formal wage work.<sup>24</sup> Approximately 30 percent of households combine multiple job types,<sup>25</sup> and 41 percent of wage jobs in both urban and rural areas are informal.<sup>26</sup>

**With the economic lockdown in March 2020, businesses across Honduras without access to electricity or the internet were not able to switch to remote work or education.**<sup>27</sup> Although the share of work from home-amenable jobs increased by 20 percent in Honduras from 2014 to 2019, it remains among the lowest in the Latin America and the Caribbean region (see appendix J, figure J.5). The most vulnerable groups (rural, poor, unskilled, or informal workers) are least likely to be able to work remotely and thus face higher risks of job loss as a result of the COVID-19 lockdowns. In addition, the COVID-19 pandemic disproportionately affected women as school closures increased the need to provide childcare at home.<sup>28</sup> Around 27.6 percent of women lost their job either permanently or temporarily four months after the onset of the crisis versus 11.1 percent of men.<sup>29</sup>

**Figure 2.2. Food Insecurity in Honduras Was Highest in Latin America and the Caribbean, 2020**



Source: World Bank High-Frequency Surveys.

Note: Share of households where adults had to skip a meal because there was not enough money or other resources

The pandemic and two hurricanes have further increased already high levels of vulnerability, as the country faced income and job losses, primarily among women and low-skilled workers, and the highest food insecurity in Latin America and the Caribbean (see figure 2.2 and appendix J, figure J.6). As of September 2021, the pandemic had led to serious illness for some 305,000 Hondurans and to 9,260 deaths. The hurricanes caused significant destruction across nearly all of Honduras's 18 departments, affecting almost 4 million people, including departments with high shares of Indigenous and Afro-Honduran communities. Poverty is expected to increase sharply in 2020, and school closures affect the human capital formation of children, especially among the poorest households.

**Inefficient public spending continues to hamper better labor market outcomes.** The targeting of the skilling system and social protection has improved thanks to the establishment of both the National Center for Information on the Social Sector (CENISS) and the social registry since 2014 to identify all potential social program beneficiaries. During the pandemic, the conditional cash transfer (CCT) program introduced a digitalized

payment system through the Honduran Bank for Production and Housing (Banco Hondureño para la Producción y la Vivienda; BANHPROVI), disbursing to 192,000 extremely poor households in early 2021, with an emergency top-up transfer to 115,000 households in areas affected by Hurricanes Eta and Iota. However, wage bills remain high, and the COVID-19 crisis revealed the deep weaknesses of the health sector. Some challenges remain also for the poorest households, linked to limited access to telecommunications (telecom) and access to payments for remote populations, notably Indigenous and Afro-Honduran peoples as well as persons with disabilities. Finally, pervasive governance weaknesses and corruption affect government capacity to deliver public services effectively.

## Notes

1. A lack of data disaggregated by ethnicity, race, and disability status does not allow a more nuanced analysis of the challenges faced by these vulnerable groups.
2. For more information on the Global Health Index for Honduras, see <https://www.ghsindex.org/country/honduras/>.
3. Taken from the Extended Immunization Program/SIVAC, Ministry of Health (2020).
4. Global Financing Facility, "Country Brief on Maintaining Essential Health Services during the COVID-19 Pandemic" (World Bank, Washington, DC, 2020), [https://www.globalfinancingfacility.org/sites/gff\\_new/files/documents/Honduras-Covid-Brief\\_GFF-ES.pdf](https://www.globalfinancingfacility.org/sites/gff_new/files/documents/Honduras-Covid-Brief_GFF-ES.pdf).
5. GEO Honduras, "Environmental Assessment Report," 2014, 64.
6. Water Partnership Program Country Report 2017, Characterization of WSS Services in Mid-sized Cities and Small Towns.
7. More than \$300 million annually is required, half of which is needed to rehabilitate or build new water supply infrastructure; 2016 Water Supply and Sanitation Monitoring Country Report (MAPAS II).



8. ERSAPS Resolution no. 05-2020, issued March 13, 2020, Government of Honduras, <https://drive.google.com/file/d/1nwN0N27heFFWfJBE35GiinvXljKc6lJ3/view>.
9. Comisión Nacional de Banca y Seguros (CNBS), Circular CNBS No. 006/2020, 2020, <https://www.cnbs.gob.hn/blog/circulares/circular-cnbs-oo62020/>.
10. Research for Community Access Partnership, Rural Accessibility Index 2019.
11. World Development Indicators (2019). Learn more about the World Bank's World Development Indicators at <https://datatopics.worldbank.org/world-development-indicators/>.
12. World Bank, *Disability Inclusion in Latin America and the Caribbean: A Path to Sustainable Development* (Washington, DC: World Bank, 2021).
13. Before the pandemic, children in Honduras could expect to complete 10 years of schooling by age 18, which is equivalent to 6.4 years when adjusted for quality of learning. World Bank, *Acting Now to Protect the Human Capital of Children: The Costs of and Response to COVID-19 Pandemic's Impact on the Education Sector in Latin America and the Caribbean* (Washington, DC: World Bank, 2021), <http://hdl.handle.net/10986/35276>.
14. See the LAC Equity Lab, <https://www.worldbank.org/en/topic/poverty/lac-equity-lab1/labor-markets/labor-force>. In addition, Muller and Sousa show that this low female participation rate may be explained by women in rural Honduras underreporting their engagement in economic activities (that is, production for own consumption and of market goods, and remunerated services and commerce), possibly undercounted by 6–23 percentage points. M. Muller and L. D. Sousa, "'She Helps Me All the Time': Underestimating Women's Economic Engagement in Rural Honduras" (Policy Research Working Paper 9217, World Bank, Washington, DC, 2020).
15. World Bank estimates using INE EPHPM 2019.
16. V. Michel and I Walker, *Jobs Diagnostic: Honduras* (Washington, DC: World Bank, 2019). Services: street vendors, domestic helpers, shoe cleaners, building caretakers, messengers, garbage collectors, and vehicle cleaners; Agriculture: farm laborers; and in Industry: maintenance, basic laborers, and handlers. The report found at <https://openknowledge.worldbank.org/bitstream/handle/10986/33304/Jobs-Diagnostic-Honduras.pdf?sequence=7>.
17. Michel and Walker, *Jobs Diagnostic Honduras*.
18. Maria Elena Garcia Mora, Steven Schwartz Orellana, and German Freire, *Disability Inclusion in Latin America and the Caribbean: A Path to Sustainable Development* (Washington, DC: World Bank, 2021).
19. World Bank, "Afro-descendants and Labor Inclusion in Honduras (Unpublished background study).
20. The wage bill is defined as all wages and salaries measured on an accrual basis, including all cash and in-kind wage and salaries and severance payments, plus employers' social benefits.
21. For global comparisons, two sets of countries have been identified. See appendix D for how the peers were identified. Structural peer countries: El Salvador, Lao People's Democratic Republic, Nicaragua, and Senegal. Aspirational peer countries: Benin, Cambodia, the Dominican Republic, and the Philippines.
22. Secretaría de Finanzas, Gobierno de la República de Honduras, "Memoria Institucional 2019," (Honduras government, Tegucigalpa, 2020). Retrieved from <https://www.sefin.gob.hn/documentos-e-informes/>.
23. The mechanism covers all employees from the central administration and decentralized entities, including those under special regimes such as teachers and health care workers. The decree that establishes the mechanism has been approved by the Council of Ministers but has not yet been published in the Official Gazette, and hence its implementation is planned for 2022.
24. Michel and Walker, *Jobs Diagnostic: Honduras*.
25. Michel and Walker, *Jobs Diagnostic: Honduras*, classifies formal jobs as those in firms with more than five employees or self-employment among individuals who have completed at least secondary education.
26. Michel and Walker, *Jobs Diagnostic: Honduras*.
27. R. Llovet Montanes et al., "Working from Home in LAC: Enabling Factors and Inequality Implications" (World Bank, Washington, DC, forthcoming).
28. Two sources: (1) Data for Good at Meta, Survey on Gender Equality at Home, 2021, <https://www.equalityathome.org/>. (2) World Bank, "Mapping of Childcare



Programs and Provision Gaps in Areas with Higher Employment Opportunities for Women in Honduras” (Gender Innovation Lab for Latin America and the Caribbean; LACGIL, forthcoming).

**29.** World Bank, “The Gendered Impacts of COVID-19 on Labor Markets in Latin America and the Caribbean” (Policy Brief, World Bank, Washington, DC, January 2021). World Bank High Frequency Phone Surveys for 2020.

# 3. Economic Growth in Honduras: Challenges and Opportunities

## 3.1 Macroeconomic and Sectoral Drivers of Growth

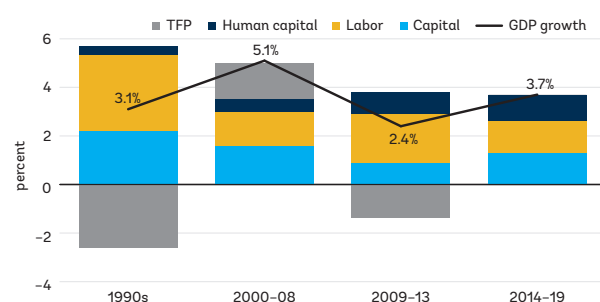
**Growth during the 2014–19 period was driven largely by factor accumulation, as productivity declined (see figure 3.1).** The country's real GDP growth averaged 3.7 percent over the 2014–19 period, lower than the growth rates of its structural peers (4.3 percent) and aspirational peers (6.2 percent). Growth has been lower than during the boom in the early 2000s, primarily because of lower capital accumulation and a significant decline in total factor productivity. Increasing remittance inflows have been used primarily for consumption, a key contributor to growth (see figure 3.2).

**The recent deceleration in investment inflows and trade combined with limited cross-sector spillovers adversely affect growth (see figure 3.3).** The maquila industry is not well integrated with the domestic economy because of its preferential tax treatment and regulatory incentives, thus it reinforces economic fragmentation. As a result,

and exacerbated by the adverse business climate, FDI has been concentrated in just a few, primarily tradable sectors. Such absence of investment spillovers erodes the potential growth impact of foreign investment and constrains the development of new economic opportunities. Fragmentation between the tradable and non-tradable sectors, as well as inefficiencies in sectoral allocation of investment and human capital, further exacerbate the limited gains in productivity.<sup>1</sup> Unlocking future economic growth will depend on attracting more FDI, maximizing investment spillovers by improving the allocation of resources, and better integrating economic sectors.

**Limited investment in manufacturing implies that low-productivity services remain the key engine of job creation.** Labor remains concentrated in less technologically sophisticated activities, such as commerce (a sector with high rates of self-employment), hotels, and restaurants. These labor market inefficiencies caused a deceleration in labor productivity growth, exacerbated by the growing unskilled

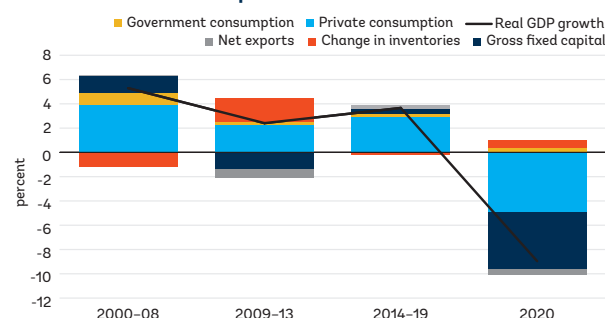
**Figure 3.1. Honduras's Growth Driven by Factors of Production**



Source: World Development Indicators, Penn World Table 10, World Bank staff calculations.

Note: GDP = gross domestic product; TFP = total factor productivity.

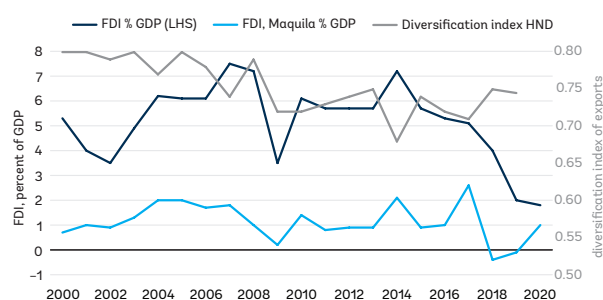
**Figure 3.2. Honduras's Growth Driven by Private Consumption**



Source: Central Bank of Honduras, World Bank staff calculations.

Note: GDP = gross domestic product.

**Figure 3.3. Decelerating Investment and Diversification of the Exports Index**



Source: World Bank staff estimates based on data from Central Bank of Honduras and TCdata360.

Note: The diversification index of exports measures the degree of concentration of exported goods. Higher index readings reflect higher product export concentration. LHS = left-hand side.

labor supply. The government needs to foster export diversification and integrate activities in nonspecial economic zone areas with the industrial sector and global value chains, expand employment in high value-added sectors, and boost productivity.

The recent Country Private Sector Diagnostic conducted by the World Bank Group identified agriculture and agribusiness, manufacturing, business process outsourcing (BPO), and digital financial services as sectors where more private sector participation could have a significant development impact. Specifically, more quality jobs could be created in agriculture by diversifying the production and developing agribusiness to boost exports and enhance resilience. Manufacturing has a strong competitive advantage based on its established industrial base and has the potential to produce more complex, higher-value-added products. In BPO, there is potential to contribute to export diversification by transitioning to higher-value outsourcing services. Digital technologies could be transformational across the whole economy, in both the public and private sectors. Their use could foster access to financial services for MSMEs and would enable those businesses to invest in themselves and create jobs; increasing their access to digital financial services would reduce their business costs and widen their reach (see appendix K).

Honduras's growth plummeted in 2020 as a result of the COVID-19 pandemic and Hurricanes Eta and Iota, exacerbating the country's intrinsic vulnerabilities. Real GDP contracted by a record 9 percent in 2020. Output contracted across nearly all sectors as a result of a sharp fall in trade, investment, and consumption, particularly in export-oriented sectors, owing to the pandemic (agriculture, textile) and in transportation, local infrastructure, agriculture, and housing owing to the hurricanes. Lockdowns impair employment and incomes, leading to a steep drop in consumption, as emergency social assistance was limited. By

December 2020, 10.2 percent of firms had closed permanently, and only 16.2 percent had been able to return to their prepandemic level of operations as of early 2021.<sup>2</sup> As a result, about 400,000 people lost their jobs in 2020, with the majority being in manufacturing and services. Agricultural production declined because of extensive flooding of key plantations that damaged crops and delayed the next cultivation cycle.<sup>3</sup> Remittance inflows stayed somewhat resilient amid an unemployment spike in the United States, growing by 3.8 percent year-on-year in 2020 (down from 13.0 percent growth year-on-year in 2019), partially compensating for income losses.

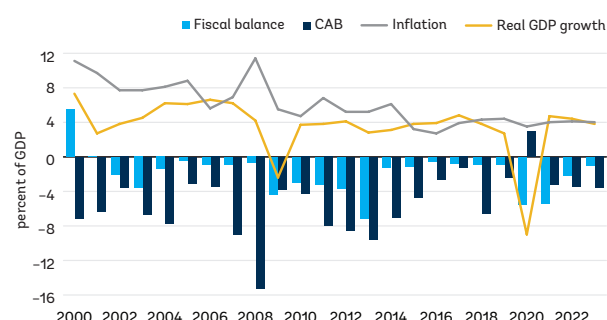
**The 2020 crises led to significant pressure on the fiscal account.** In response to the crises, the government focused on the emergency response in the health sector while also assisting vulnerable households and affected firms by providing liquidity support, transfers, forbearances, and credit relief as well as post-hurricane reconstruction. To finance those expenditures, the government was able to authorize up to \$2.5 billion (10 percent of GDP) in new borrowing for 2020–21 after activating the FRL's escape clause. As a result, the non-financial public sector (NFPS) deficit increased to 5.5 percent of GDP in 2020 (from 0.9 percent in 2019). Meanwhile, the NFPS debt-to-GDP ratio increased to 53.6 percent in 2020 (from 43.1 percent in 2019) on the back of the lower nominal GDP (accounting for about 80 percent of the increase in debt) and higher external borrowing.<sup>4</sup>

## 3.2 Challenges to Competitiveness in Honduras

Since 2014, the implementation of fiscal and structural reforms has substantially improved Honduras's macroeconomic performance. The government pursued prudent macroeconomic management anchored in the FRL, a crawling peg exchange with ample foreign reserves, and sustained fiscal consolidation. It reduced the fiscal

deficit by 6.6 percentage points of GDP in three years and stabilized the public debt-to-GDP ratio at around 43 percent. This was instrumental in restoring credit ratings, reducing Honduras's credit spreads, and improving financing terms for investment. The current account deficit narrowed to an average of 3.6 percent of GDP between 2015 and 2019 (from an average of 8.2 percent during 2011–14), primarily financed by strong FDI (see figures 3.4 and 3.5). Yet the impacts of the 2020

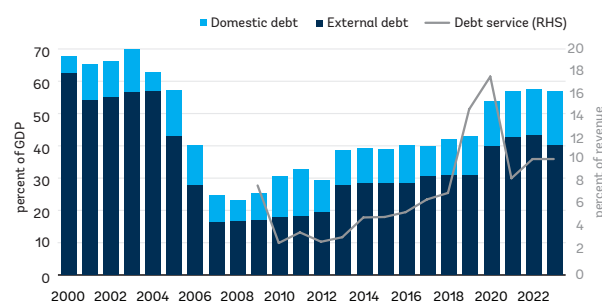
**Figure 3.4. Prudent Macroeconomic Management Supported Macrostability in the Run-Up to the COVID-19 Crisis**



Source: World Bank staff estimates using data from Banco Central de Honduras

Note: CAB = current account balance; GDP = gross domestic product.

**Figure 3.5. Prudent Macroeconomic Management Safeguarded Debt Sustainability with Strong Debt-Carrying Capacity and Low Risk of Debt Distress**



Source: World Bank staff estimates using data from Banco Central de Honduras

Note: As of 2020, 65.5 percent of public and publicly guaranteed debt (\$5,960 million) was contracted by multilaterals, 21.5 percent (\$1,952 million) by commercial institutions, and 13 percent (\$1,177.3 million) by bilateral entities.

crises exposed Honduras's longstanding macro-economic vulnerabilities. Persistently low domestic investment rates and the overall procyclical fiscal policy<sup>5</sup> consequent upon budget rigidities constrained the country's ability to respond to shocks. The government consistently relied on cuts to public investment to meet FRL targets, reducing long-term growth. Transitioning to a more countercyclical fiscal policy would dampen business cycles, protect public investment, and better support long-term growth.<sup>6</sup>

**While the true impact of migration remains to be clarified (see box 3.1), progress on other fronts to boost competitiveness remain insufficient.** Although the homicide rate has declined since 2011 (see section 5.3), the prevalence of crime and violence remains a key concern for businesses and citizens.<sup>7</sup> The economic cost of crime and violence in Honduras is estimated to be close to 14 percent of GDP.<sup>8</sup> High levels of violence in Honduras are associated with systemic social, economic, and political exclusion and are

### Box 3.1. Can Honduras Benefit from Migration?

While migration is often associated with the depletion of human capital and other negative effects, such as those described in the 2015 Systematic Country Diagnostic (SCD) and while the impact of migration in Honduras is yet to be determined (a knowledge gap), recent analysis demonstrates potential medium- and long-term benefits of migration:<sup>a</sup>

- Honduran migrants could gain more than the rest of the country's population in terms of increases in income and better access to education and health services.<sup>b</sup>
- Honduras can benefit through increased remittances, investments, trade, and transfers of skill and technology. In 2021, remittance flows to Honduras were estimated to be more than 20 times higher than the total amount of development aid received by the country over the past 10 years.<sup>c</sup>

But to harness these benefits, a set of comprehensive policies that facilitate the integration of migrants into the host economy and society need to be in place. Honduras lacks a comprehensive migratory policy that could help optimize the benefits of migration and reduce the injuries and losses of life sometimes suffered on the migrant trail.

a. According to World Bank estimates, the net official development assistance received by Honduras, Guatemala, and El Salvador in 2019 totaled US\$1.15 billion. World Development Indicators (WDI 2019); World Bank Migration and Development Brief No. 32 (April 2020), <https://www.knomad.org/publication/migration-and-development-brief-32-covid-19-crisis-through-migration-lens>; World Bank Migration and Development Brief No. 33 (October 2020), <https://www.worldbank.org/en/topic/socialprotectionandjobs/publication/migration-and-development-brief-33>; World Bank Migration and Development Brief No. 34 (May 2021), <https://www.knomad.org/publication/migration-and-development-brief-34>; and Clemens, Michael. "Does Development Reduce Migration?" Center For Global Development, Working Paper, 359 (March 2014). <https://www.cgdev.org/publication/does-development-reduce-migration-working-paper-359>.

b. Globally, migration empowers women and reduces child mortality. In Canada, for example, access to better jobs explains a citizenship premium of 11 percent in higher wages among naturalized migrants, while delaying the citizenship eligibility of migrants by one year adversely affected Canadian residents' wages. Wladimir Zanonia and Ailin He, "Citizenship and the Economic Assimilation of Canadian Immigrants" (Inter-American Development Bank, Working Paper Series IDP-WP-01127, March 2021), <https://publications.iadb.org/publications/english/document/Citizenship-and-the-Economic-Assimilation-of-Canadian-Immigrants.pdf>.

c. According to World Bank estimates, the net official development assistance received by Honduras, Guatemala, and El Salvador in 2019 totaled \$1.15 billion. Michael Clemens, "Does Development Reduce Migration?" (Center for Global Development Working Paper 359, March 2014), <https://www.cgdev.org/publication/does-development-reduce-migration-working-paper-359>.



rooted in weak governance and institutions. The civil and criminal justice systems are not free from improper government influence and are not impartial, leading to the growing public perception of impunity.<sup>9</sup> Limited access to justice, weak protection of rights and the rule of law, and a climate of impunity further reinforce the drivers of violence and fragility, which, exacerbated by extreme weather events, contribute to the strong intention among Hondurans ages 18 to 39 to migrate, as shown by surveys from January 2021.<sup>10</sup>

**Low quality and deep and persistent disparities in access to education prevent many Hondurans from acquiring the knowledge and skills required by the private sector.** Section 2.3 details the weaknesses of the general education system. The technical and vocational education and training systems in Honduras require a better curriculum to provide young workers with training in

the skills that are in demand in the labor market. About 40 percent of Honduran workers lack basic problem-solving skills in technology-rich environments, suggesting that the education system needs to provide significant additional training to enable businesses to capitalize on the opportunities offered by the digital economy.<sup>11</sup>

**Adequate infrastructure remains limited.** The energy sector remains a major hindrance to the country's development because of its high costs, limited access, and low reliability<sup>12</sup> (see appendix L). The sector's abysmal \$3.4 billion debt stock (about 15 percent of GDP) and an additional \$1.1 billion in contingent liabilities stemming from persistent mismanagement (see box 3.2)<sup>13</sup> are a systemic risk to macrofiscal stability. Investments in the transport sector have largely funded core infrastructure<sup>14</sup> in pursuit of the government's ambition to turn Honduras into a regional logistics

### Box 3.2. Impasse in the Energy Sector

Empresa Nacional de Energía Eléctrica's (ENEE's) persistent deficit stems from a combination of high losses (35 percent in 2018) in the distribution system, expensive and limited generation capacity, and misaligned tariffs as well as a weak institutional and governance framework. Inadequate public investment in infrastructure is increasing the fragility of the electricity system. Attempts to resolve these issues had limited progress. Despite various legal and regulatory reforms enacted over the past decade, the government is struggling to implement the Electricity Sector Law of 2014 and subsequent regulations. The last initiative involved the creation, in January 2020, of the Intervenor Commission of ENEE with a mandate to (1) develop a sustainability plan for the sector; (2) improve the financial situation of ENEE; and (3) support the implementation of the Electricity Sector Law of 2014. The Strategic Plan prepared by the Intervenor Commission includes measures to reduce ENEE's debt, mitigate associated fiscal risks, and provide short-term fiscal relief by increasing electricity tariffs, reducing technical and nontechnical losses, and renegotiating existing contracts with providers of generators and with Empresa Energía Honduras, the company subcontracted to manage the distribution network and reduce losses. The implementation has been slow and has not produced the expected results.

Source: World Bank staff assessment in the context of the World Bank Programmatic Advisory Services and Analytics "Supporting a Sound Energy Transition for an Efficient Central America (2018-2022), forthcoming.

hub, but the investments have failed to improve accessibility in rural areas.<sup>15</sup> In urban areas, most public transport is provided by unregulated and informal operators and tends to be unsafe and expensive. The sector is vulnerable to shocks, with 60 percent of the country's transport network being at risk from natural disasters. Digital connectivity is limited and constrained by inadequate regulation to promote competition. Honduras' fiber-optic network is underdeveloped, and mobile and internet access is limited and expensive. Digital payments are largely underexploited.

**Limited access to finance remains one of the key constraints to private sector development.**

While the financial infrastructure in Honduras has improved recently, many MSMEs reported that the lack of access to credit is the main obstacle to doing business. Honduras ranks the highest among Latin America and the Caribbean countries in the percentage of firms whose recent loan application was rejected. Coupled with higher interest rates than elsewhere in region, this hinders MSMEs' development and employment growth, undermines competitiveness, and limits options for financing the expansion of business operations.

**Weak institutions and governance continue exacerbating the difficulty of doing business.** In 2020, Honduras scored poorly on all six dimensions of the World Bank's Worldwide Governance Indicators. Administrative corruption particularly affects small and medium-sized firms,<sup>16</sup> with bribery incidences higher than 30 percent, triple the regional average. A sense of impunity is disproportionately perceived by medium-sized firms, and more than 50 percent of firms identify the judicial system as their major constraint.<sup>17</sup> Corruption has long been perceived as one of the top challenges in Honduras, but it noticeably became the primary concern among Hondurans with the onset of the pandemic.<sup>18</sup> Medium-sized firms are particularly affected.<sup>19</sup>

Competition is constrained by entrenched state capture and incumbents, which is exacerbated by weak checks and balances. Favoritism in government decisions is increasing, and there are growing indications of patronage and undue influence in relationships between politicians and businesses. The capacity of the system to curtail these practices is limited, as checks and balances are weak in Honduras, even compared to neighboring countries (see appendix M, figure M.3).

**Finally, business and trade regulations are also key constraints.**

The regulations seem largely market driven;<sup>20</sup> however, de facto, the legal framework, price controls, and state capture dampen competition.<sup>21</sup> The 2019 Global Competitiveness Index (GCI), produced by the World Bank, ranked Honduras 118th out of 141 economies on indicators of the burden of government regulation, 93rd on domestic competition, 92nd on market dominance, and 86th on competition in services. Significant barriers to entry, including time<sup>22</sup> and cost, inhibit competition in domestic markets and encourage informality. High trade costs are an implicit barrier to doing business in Honduras, including through nontariff measures imposed on 896 export products—nearly half of all exports identified in the Harmonized System<sup>23</sup>—such as export registration requirements and inspection requirements. The 2019 GCI ranked Honduras 119th out of 141 countries on indicators related to the efficiency of border clearance.

## Notes

1. M. A. Hernandez Ore, L. D. Sousa, and J. Humberto Lopez, *Honduras: Unlocking Economic Potential for Greater Opportunities* (Systematic Country Diagnostic; SCD, Washington, DC: World Bank, October 2015). The reasons for the low impact of investment on growth rate are not yet fully understood and remain a knowledge gap in the SCD Update.

2. These figures are from survey data reported by the Honduran Council of Private Enterprise (COHEP) for 2020.

**3.** In response to the crisis, the government has implemented a Containment and Response Plan, provided targeted support to MSMEs, and adopted a long-term Plan for Reconstruction and Sustainable Development, aimed at rebuilding productive assets and infrastructure, strengthening the economy's sustainability and resilience to natural disasters, and expanding social protection programs.

**4.** External public debt increased by 5.5 percentage points of GDP in 2020 (from 30.7 percent at the end of 2019), including a sovereign bond placement (\$600 million) and multilateral loans (\$1,552.7 million).

**5.** World Bank Semiannual Report and World Bank staff calculations based on data from Banco Central de Honduras, SEFIN.

**6.** Namely, during a boom: (1) government spending as a share of GDP should go down because of automatic stabilizers; (2) with constant tax rates and some degree of progressivity, government revenues as a share of GDP should go up, and (3) the budget surplus as a share of GDP should increase. The opposite should occur in recessions.

**7.** The World Economic Forum's Executive Opinion Survey ranked crime and theft as the second most problematic factor for doing business in Honduras in 2017. Some 64.1 percent of firms reported paying for security, 27.7 percent reported experiencing losses due to theft and vandalism, and 29.7 percent identified crime, theft, and disorder as major constraints to doing business.

**8.** Information comes from the Global Peace Index 2021, <https://www.visionofhumanity.org/wp-content/uploads/2021/06/GPI-2021-web-1.pdf>.

**9.** *The World Justice Project Rule of Law Index 2021* (Washington, DC: World Justice Project, 2021), <https://worldjusticeproject.org/sites/default/files/documents/WJP-INDEX-21.pdf>; Bertelsmann Transformation Index, 2020, <https://bti-project.org/en/reports/country-dashboard/HND>.

**10.** CID-Gallup poll, January 2021, as reported in "A hondureños les preocupa más el desempleo que el coronavirus: CID Gallup," *La Prensa*, February 3, 2021, <https://www.laprensa.hn/honduras/1440085-410/hondure%C3%B1os-preocupa-mas-desempleo-coronavirus-cid-gallup>.

**11.** OECD (Organisation for Economic Co-operation and Development), "Skills Matter: Further Results from

the Survey of Adult Skills" (OECD Skills Studies, OECD Publishing, Paris, 2016), <http://dx.doi.org/10.1787/9789264258051-en>.

**12.** In the 2019 GCI, Honduras ranked 110th out of 141 countries in electricity access and 103rd in electricity service quality.

**13.** ENEE's liabilities includes two contingent risks: (1) an increase in receivables of about 43 percent in 2020 and (2) the government's ongoing conflict with Empresa Energía Honduras, the company subcontracted to manage the distribution network and to reduce losses.

**14.** Honduras's total investments in transport infrastructure averaged just under 2 percent of GDP between 2010 and 2018, a higher percentage than those of its regional peers (El Salvador and Guatemala) but less than half that of Panama, the regional reference.

**15.** Honduras has the lowest road density in Central America. Only 51 percent of the population has access to a city of 50,000 people within one hour of travel time by a motor vehicle. Its rural access is 30.3 percent, measured as the share of rural population less than 2 kilometers from an all-weather road.

**16.** More than 60 percent of the firms in the 2016 Enterprise Survey identified corruption as a major constraint on their development, which is twice the average percentage in the Latin American and the Caribbean region and the world.

**17.** See Enterprise Survey, 2016.

**18.** "A hondureños les preocupa más el desempleo que el coronavirus: CID Gallup," *La Prensa*, February 3, 2021, <https://www.laprensa.hn/honduras/1440085-410/hondure%C3%B1os-preocupa-mas-desempleo-coronavirus-cid-gallup>.

**19.** See Enterprise Survey, 2016, <https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/honduras>.

**20.** Defense and Promotion of Competition Law (2006), participation of Honduras to CAFTA-DR, customs union with Guatemala.

**21.** OECD-World Bank Product Market Regulation Indicator (2013–2016), <https://www.oecd.org/economy/reform/indicators-of-product-market-regulation/>.

**22.** Starting a business in Honduras involves 11 procedures that take an average of 42 days to complete.

**23.** The Harmonized System is a global product classification system. Learn more at <https://www.trade.gov>.

# 4. Sustainability

## 4.1 Macroeconomic and Fiscal Sustainability

The 2015 Systematic Country Diagnostic (SCD) projected that Honduras' macroeconomic profile could be expected to improve in the medium term if a number of conditions were met. Unfortunately, the 2015 SCD scenario did not fully materialize despite sustained fiscal consolidation, prudent macroeconomic management, and a well-capitalized financial market (see appendix N, table N.1), as key structural constraints to growth, including those related to private sector investment and the provision of infrastructure, remain unaddressed. In addition, the twin shocks of 2020 led to a steep increase in public debt.

Nevertheless, public sector debt remains stable, the risk of debt distress for both public external and overall debt is low, and the country has strong debt-carrying capacity. According to the most recent World Bank/IMF debt sustainability

analysis, the public and publicly guaranteed debt-to-GDP ratio is expected to peak at 59.7 percent of GDP in 2022 and then decline gradually to 40.1 percent of GDP by 2041, supported by stable primary surpluses and declining interest payments. The ratios of the present value of public debt and public debt service to GDP are expected to remain well below their indicative thresholds. While no indicators exceed their benchmarks under any scenario, public debt remains vulnerable to contingent liability risks and exogenous shocks, especially natural disasters. This highlights the importance of detecting and addressing existing debt vulnerabilities and rebuilding buffers to address shocks.

**Improvements in Honduras's macroeconomic outlook will depend on the implementation of important structural reforms.** Appendix N.1 presents Honduras's medium-term macroeconomic outlook. Real GDP is expected to reach its prepandemic level by 2023 supported by reconstruction and recovery efforts and if vaccines are

widely available to the population. Projections also assume that structural reforms are accelerated, especially in the financial management of the electricity sector, governance, and transparency. With respect to fiscal management, the country will need to (1) maintain prudent fiscal management and return to the FRL target by 2023; (2) strengthen tax policy and tax administration, including revenue management; (3) strengthen fiscal risk management and reduce the growing vulnerability from contingent liabilities, especially those stemming from SOEs (for example, ENEE), state-owned banks (SOBs), and natural disasters; (4) increase spending efficiency, including in the procurement of goods and services and on the wage bill; and, specifically on the wage bill, (5) control the growth of the wage bill by implementing the centralized wage bargaining mechanism and pursuing civil service reform. These reforms would need to be complemented with key structural reforms in support of growth and poverty reduction.

**While notable progress has been observed in specific areas, accountability continues to be**

**a crucial challenge, with a growing mistrust by civil society with respect to governance, corruption, and mismanagement, undermining quality in the provision of public services.**

A mechanism for public monitoring of prices (*Observatorio de Precios*) has been launched and a new e-procurement platform (Hondupcompras2) has been put online. However, it is still limited by underlying data structures that preclude an integrated analysis of the entire procurement cycle.

## 4.2 Social Sustainability

**Although the homicide rate has declined since 2011<sup>1</sup> on the back of more stringent repression, the prevalence of crime and violence remains a key concern (see appendix A, figure A.2; box 4.1).** The underlying drivers and triggers of crime and violence remain. Corruption and weak capacity in the police and judicial systems add to a climate of impunity that provides fertile ground for crime, triggering a lack of confidence in the police.<sup>2</sup> Beyond repression and efforts to expand inclusion of youth in

### Box 4.1. The Knowledge Gap—Beyond Repression: What Policies Can Have Short- to Medium-Term Impacts on Crime and Violence

Gangs, a primary driver of crime and violence, also adversely affect the provision of public services. In Honduras, crime and violence have an additional layer of complexity with the existence of drug cartels, professional crime entities of sophisticated organization, and high-powered weaponry that do not rely on gangs for their activities but that are sporadically involved with the gangs, thereby strengthening both parties. Relevant evaluations to design appropriate policies could include the following: (1) the true impacts of the reform (or “purging”) of the police that took place starting in 2013; (2) a mapping of services (such as education, health) against the borders of gangs; (3) the mechanisms and impact on crime and violence of returned migrants who have spent time in US jails; and (4) a better understanding the cost of extortion, a primary source of income for gangs.

Source: The Geography of Crime and Violence in Latin America and the Caribbean: Revisiting the Role of Development Policy (2023).



productive activities—which have achieved limited progress over the past five years—a broader vision needs to be grounded on a better understanding of what could concretely work. Significant resources have been spent to address crime and violence. For example, the US government has spent more than \$2 billion to fight crime and violence in Central America, mainly in primary and secondary interventions related to prevention, such as a crime and violence observatory lab and police training. However, impact evaluations have not been conducted of these interventions and there is little information on what has worked to address key drivers of the problem.

**Honduras has one of the highest rates of youth who are neither in school nor employed, further fueling crime and violence.** Recent demographic shifts in Honduras,<sup>3</sup> with an increase in the working-age population, present risks given the size of the population that is not in the employment, education, or training (NEET) cohort,<sup>4</sup> and prevalent crime and violence. As of 2019, 28 percent of individuals aged 15–24 neither attended school nor were employed. This share is particularly high among women (43 percent)—in fact, the highest in the Latin America and the Caribbean region, followed by El Salvador at 38 percent. As highlighted in the 2015 SCD, this group is particularly vulnerable to crime, both as perpetrators and victims.

### 4.3 Environmental Sustainability Notably in the Face of Climate Change

**Honduras’ exposure to natural hazards remains a key challenge to the country’s development.**<sup>5</sup> From 1996 to 2015 Honduras has been the country most severely affected by extreme weather events,<sup>6</sup> with annual average losses equivalent to 2.1 percent of GDP, affecting critical sectors such as transportation, telecommunications,

health, education, and water and sanitation. The impacts of these events disproportionately affect the poorest and marginalized segments of the Honduran population.<sup>7</sup>

**Climate change is expected to increase mean temperatures; intensify floods, heatwaves, and drought; and raise sea levels, with significant consequences for the whole Honduran society.**

Honduras is one of the Central American countries most affected by drought affecting agriculture,<sup>8</sup> while flooding destroys crops, homes, and infrastructure. Temperature and precipitation changes resulting from climate change will affect the already stressed power sector, reducing hydropower generation and increasing dependence on polluting thermal plants; threaten land, forest, and marine ecosystems that are crucial to livelihoods; and reduce water quality and availability, enhancing conditions for the proliferation of vector-borne and waterborne diseases.<sup>9</sup> Climate change impacts, compounded by natural resource degradation and limited access to basic services, are expected to continue fostering migration from rural areas to urban centers and outside Honduras.<sup>10</sup>

**Hurricanes Eta and Iota struck Central America in 2020, each with an impact magnitude comparable to that of Hurricane Mitch in 1998.**

They resulted in severe displacement and loss of life (evacuation of more than a million citizens and over 100 deaths).<sup>11</sup> The government’s damage and loss assessment suggested an impact of about 52 billion lempiras (\$2.15 billion), and the full damage and loss assessment equated to about 7.5 percent of 2019 GDP. The magnitude of both 2020 events, their intensity, and the patterns of damage were reminiscent of Hurricane Mitch, though their human and economic impacts were far less significant (see table 4.1). Although these disparities are partly a consequence of the specificities of the storms, the substantive efforts of Honduras in

**Table 4.1. Comparative Data on Impact on Lives Following Hurricanes Mitch and Eta-Iota**

Country	Mitch (1998)		Eta-Iota (2020)		
	Dead	Directly affected	Dead	Disappeared	Directly affected
Costa Rica	4	16,500	2	—	325,000
El Salvador	240	83,316	2	—	2,000
Guatemala	268	105,000	60	100	311,245
Honduras	5,657	617,831	95	10	437,212
Nicaragua	3,045	368,261	21	2	2 million
Panamá	N/A	N/A	21	12	—
México	N/A	N/A	27	—	184,000
Belize	N/A	N/A	—	—	30,000

Sources: World Bank staff elaborations based on Hurricane Mitch information: Elizabeth Mansilla, “Centroamérica a 10 años de Mitch. Reflexiones en torno a la reducción del riesgo” (2008). Hurricanes Eta-Iota information: World Bank, “Advisory 11: Hurricane Eta Central America—Belize- Mexico” (World Bank internal document).

Note: — = not applicable; N/A = not available.

investing in disaster risk reduction and preparedness in recent years also seem to have played a part. Confirming this by identifying the results achieved under the government policies on disaster risk management and by determining how to build on those is a knowledge gap. Honduras has built on years of efforts to incorporate disaster risk management and climate change in its strategies, rather than simply focusing on enhancing disaster responses.

**The government of Honduras has put in place a regulatory and policy framework to support low-carbon and climate-resilient development that, if effectively implemented, could help address land degradation.** Forest cover in Honduras still represents 56 percent of the territory,<sup>12</sup> but land use, land-use change, and forestry (LULUCF) removals remain a major challenge for greenhouse gas emissions. Driven by the exploitation of forest and agriculture alone,<sup>13</sup> LULUCF represents around 42 percent of Honduras’s total emissions<sup>14</sup> and, as mentioned in the SCD, intensifies the impacts of droughts and floods. The Climate Change

Law (Decree 297-2013) and the Agroforestry Law for Rural Development articulate the national policy aimed at strengthening adaptation to climate change and generating co-benefits for the populace (box 4.2).

**The shocks induced by the 2020 crises have underscored the urgent need to strengthen the resilience of the economy.** In response to the crisis, the government has implemented a Containment and Response Plan, is providing targeted support to MSMEs, and has adopted a long-term Plan for Reconstruction and Sustainable Development, aimed at rebuilding productive assets and infrastructure, strengthening the economy’s sustainability and resilience to natural disasters, and expanding social protection programs. The challenges and opportunities that climate change may create on the country’s development patterns remain, however broadly to be determined, an endeavor the upcoming Country Climate and Development Report (CCDR) will try to address (box 4.3).

#### **Box 4.2. Honduras' Commitment to Addressing Climate Change**

In its Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change, Honduras has committed to a 15 percent emission reduction relative to business-as-usual levels by 2030 for energy, industrial processes, agriculture, and waste, conditional on international support. In addition, Honduras has included as sectoral targets, the afforestation/reforestation of 1 million hectares by 2030 and a 39 percent reduction in family firewood consumption through the use of efficient stoves to reduce deforestation by 2039. Finally, Honduras aims to formulate a Green Growth Policy that will regulate and promote the protection and restoration of ecosystems and include incentives to enhance the agriculture sector through green technologies. Three main programs are envisaged: National Program for the Restoration and Valuation of Ecosystem Goods and Services; Program for the Recuperation of Degraded Ecosystems; and National Program of Coastal and Marine Ecosystems.<sup>a</sup> Turning those policies into actions will be a major challenge given weak institutional capacity and governance shortcomings; however, on a more positive note, the rhythm of deforestation has slightly declined in recent years.<sup>b</sup>

Sources: The Climate Change Law (Decree 297-2013) available at [https://observatoriop10.cepal.org/sites/default/files/documents/hn\\_-\\_ley\\_del\\_cambio\\_climatico\\_y\\_otros\\_decretos.pdf](https://observatoriop10.cepal.org/sites/default/files/documents/hn_-_ley_del_cambio_climatico_y_otros_decretos.pdf); Executive Decree PCM-126-2020, available at <https://www.tsc.gob.hn/web/leyes/PCM-126-2020.pdf>; and Updated NDC, available at [https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Honduras%20First/NDC%20de%20Honduras\\_%20Primera%20Actualizaci%C3%B3n.pdf](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Honduras%20First/NDC%20de%20Honduras_%20Primera%20Actualizaci%C3%B3n.pdf).

a. Executive Decree PCM-126-2020.

b. Deforestation declined from 22,700 Ha/y between 2012 and 2016, to 18,400 Ha/y between 2016 and 2018.

#### **Box 4.3. Knowledge Gap—Linking Climate Change and Development**

The objective of the Country Climate and Development Report (CCDR) will be to capture the interplay between Honduras' development goals and climate change. The CCDR will analyze how the country's development goals can be achieved in the context of adapting to and mitigating climate change. The CCDR will also take into account and reflect the country's commitments as embedded in its Nationally Determined Contributions (NDC) and will identify ways to support implementation. The CCDR will deploy a people-centered approach and focus on four key aspects as they relate to climate change and development: (1) water resources management; (2) transport; (3) agriculture, forestry, and land use; and (4) the social dimensions of climate change.

Source: World Bank, "Country Climate and Development Report (2022)," forthcoming.

## Notes

1. The measured declines may be partially skewed by a change in the methodology of evaluating homicides. Sources: United Nations Office on Drugs and Crime, "Victims of Intentional Homicide: 2018," <https://dataunodc.un.org/content/homicide-rate-option-2>, based on data from the United Nations Crime Trends Survey (UN-CTS); UNAH/IUDPAS—Honduras Violence Observatory.

2. Sourced from the 2019 AmericasBarometer by the Latin American Public Opinion Project (LAPOP), [www.LapopSurveys.org](http://www.LapopSurveys.org).

3. The dependency ratio dropped from 61.4 percent in 2015 to 56.2 percent in 2019; World Development Indicators.

4. Data from the Honduran Household Survey (2018). Informality refers to workers aged between 15 and 64 who do not receive a pension. According to International Labour Organization data, the share of the population not in education, employment, or training stands at 26.7 percent of the labor force, 78 percent of whom are women, including a growing share of educated women. The share of youth in the NEET population in Honduras is the highest in the Latin American and the Caribbean region. Youth are defined as people between the ages of 15 and 24. Youth not in education are those who were neither enrolled in school nor in a formal training program (such as vocational training) during a specified reference period (for example, one week).

5. Natural hazards also include geological events. Although Honduras has remained largely unaffected by the frequent earthquakes and volcanic activity that characterize other Central American countries, in 2009 a magnitude 7.1 earthquake killed seven people and caused estimated losses of \$100 million, including \$35 million in damage to infrastructure. "Disaster Risk Management in Central America: GFDRR Country Notes, Honduras" (World Bank, Washington, DC, 2010), [http://web.worldbank.org/archive/website01539/WEB/IMAGES/GFDRR\\_HO.PDF](http://web.worldbank.org/archive/website01539/WEB/IMAGES/GFDRR_HO.PDF).

6. See Sönke Kreft, David Eckstein, and Inga Melchior, "Global Climate Risk Index 2017" (Germanwatch, Berlin, 2016).

7. Indigenous peoples and Afro-descendants are the groups most severely affected by poverty and social exclusion in Honduras. While these groups account for an estimated 8.6 percent of the national population, rough estimates from indigenous organizations indicate that more than 70 percent live in poverty and over half are unemployed. A lack of household surveys has translated into a lack of official estimates of poverty rates among these groups.

8. Ravelo, A., A. Planchuelo, R.A. Ramírez, et al. 2016. *Monitoreo y Evaluación de las Sequías en América Central*. Editores: Hugo Carrão y Paulo Barbosa; EUR 27974 ES; doi:10.2788/65166.

9. Government of Honduras (2018). National Climate Change Adaptation Plan.

10. Two sources: (1) Q. Wodon, et al., eds., *Climate Change and Migration: Evidence from the Middle East and North Africa Region* (World Bank Studies, Washington, DC: World Bank, 2014); (2) B. Šedová, L. Čizmaziová, and A. Cook, *A Meta-Analysis of Climate Migration Literature* (No. 29). New York: Center for Economic Policy Analysis, 2021).

11. IFRC, "Hurricane Eta and Iota—Emergency Appeal no. MDR43007 Operation Update no. 2" (Situation Report, International Federation of Red Cross and Red Crescent Societies, Paris, January 21, 2021), <https://reliefweb.int/report/honduras/honduras-hurricane-eta-and-iota-emergency-appeal-n-mdr43007-operation-update-no-2#:~:text=According%20to%20official%20figures%2C%20approximately,floods%20accumulated%20from%20the%20storms>.

12. Anuario estadístico Forestal de Honduras 2019, <http://sigmof.icf.gob.hn/downloads/Anuario-Forestal-2019.pdf>.

13. Annual average forest loss is estimated to be 23,303 hectares per year, with the 2006–12 period registering the highest deforestation, according to Anuario estadístico Forestal de Honduras 2019.

**14.** According to its Biennial Update Report (2020), the country's total emissions were 23,293 tonnes of carbon dioxide equivalent (t CO<sub>2</sub>e), of which forest removals were 14,657 gigagram carbon dioxide equivalent (GgCO<sub>2</sub>e).

# 5. Taking Stock and Priorities Ahead

## 5.1 Challenges Facing Poverty Reduction

Although the country's fundamental challenges have not radically changed since the 2015 SCD—and thus its recommendations are still relevant—Honduras has made progress in some areas identified in the SCD. Significant strides have been made in improving *fiscal sustainability and debt stabilization* on the back of stringent *fiscal discipline* before the 2020 crises. Together with an *improved framework for disaster risk management* and a *stronger social protection targeting system*, these efforts have probably helped cushion the impact of the exceptional crises of 2020. There seems to be a conjunction of factors that led to progress in those areas: first, a consensus across society of the urgent need to act and second, a sustained accompaniment of international stakeholders customizing world-class, cutting-edge practices in the country.

**Repeating patterns observed in previous cycles, the 2020 crises underscored the fragility**

**of these achievements and the risks that they might be reversed.** While this risk is not unique to Honduras, the country's intrinsic vulnerabilities make it particularly important to consolidate the gains previously acquired. For example, while the flexibility of the fiscal discipline was warranted in 2020 in the face of the crises, it is important for the country to quickly resume fiscal discipline to further strengthen macro stability and for it to implement a more countercyclical policy to respond better to shocks. Moreover, a planned return to FRL targets should safeguard public investment. Improvements in assessing, monitoring, and mitigating fiscal risks will be critical. The example of the improved management of the emergencies resulting from climate disasters for more than 20 years shows that sustained achievements are possible beyond economic and political cycles. Looking ahead, significant improvement in the efficiency of public investment spending combined with a long-term program of investment is needed to adapt infrastructure to the new climate patterns, from transport to water, from energy to digital.



Improving the management of these infrastructure services will also be essential for sustainability.

**Progress on other structural challenges has been more mixed, and key constraints remain to accelerated growth.** The shortage of skills is still prevalent, hampering the articulation of a more complex, integrated, and high-productivity economy. Education outcomes are poor, despite the high level of spending in the sector. Further, while investments have been made on trunk infrastructure, accessibility and cost remain key challenges to competitiveness, particularly for rural populations. Access to credit also remains a challenge, and little to no progress has been made in reforming the regulatory framework affecting the labor market and certain product markets subject to special regimes.

**Despite improvement in the social protection targeting system, inequality and social exclusion remain high.** The pandemic underscored the deep weaknesses of the health sector. Moreover, while progress has been observed in some of the areas flagged in the SCD, such as social protection and access to water, the quality of the services delivered in some areas has remained mediocre, at best: education outcomes are poor; the quality and affordability of services such as water, electricity, and internet are bad; and the divide between the formal and informal sectors has grown. As a result, the country's Human Capital Index has degraded in recent years, except for slight improvements since 2015 in primary education. The 2020 crises compounded the low quality and access difficulties across a range of these services, with near-certain adverse human capital outcomes in the long term, especially for poor and vulnerable people, including Indigenous Peoples, Afro-Hondurans, migrants, and persons with disabilities.

**Resilience remains broadly low.** While progress has been achieved in disaster management (for

example, through early warning and crisis management systems), underlying issues have yet to be addressed: resilience of infrastructures and systems remains weak, as demonstrated by the number of infrastructures (road, bridges, houses, and so on) destroyed by Hurricanes Eta and Iota and the impacts on some productive sectors such as textiles. As mentioned previously, fiscal vulnerabilities have increased in the post-2020 crises context, and improving the quality of expenditures will be essential to maintain fiscal equilibrium at a moment of dire need for investment to boost the economic rebound, provide basic services, and foster inclusion of the poorest people.

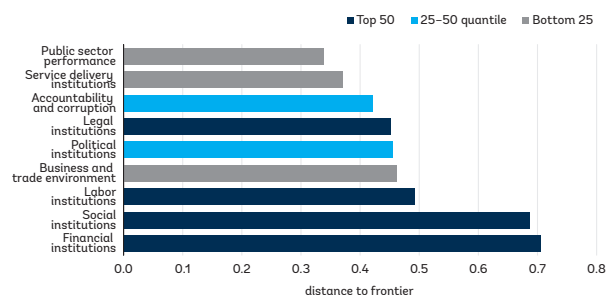
## 5.2 Deep Roots of the Challenges Faced

**The SCD identified the low quality of institutions susceptible to corruption and various forms of elite capture as the root cause underlying Honduras's development challenges.** The SCD stressed how a low development equilibrium did not allow for the emergence of bargaining powers among groups that could demand the improvement of state institutions. The situation has not improved since the SCD: governance and institutions have continued to deteriorate under state capture, clientelism, and patronage. This has undermined citizens' trust, adversely affected service delivery, limited space for reform, and restricted opportunities for private sector development, ultimately fostering inequality and exclusion.

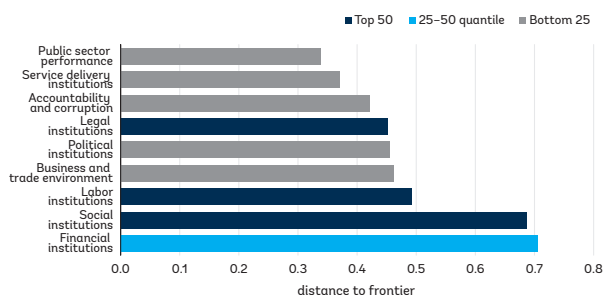
**An institutional benchmark<sup>1</sup> assessment with two sets of country comparators (structural and aspirational) shows that Honduras ranks poorly across the board, but particularly on public sector performance, service delivery institutions, and accountability and corruption.** The institutional assessment compares Honduras with structural and aspirational comparators on the basis of

**Figure 5.1. Institutional Benchmark Analysis**

**a. Honduras and Structural Peers**



**b. Honduras and Aspirational Peers**



Source: World Bank staff estimates based on a suite of governance indicators.

a suite of 88 indicators and shows considerable room for improvement in most of the nine institutional clusters assessed (see figure 5.1). The analysis highlights that regulation and enforcement are especially weak when it comes to managing public resources, and the government lacks the capacity to spend efficiently. Significant corruption and the absence of control and accountability are perceived as more severely rooted in Honduras than in all comparator countries. In terms of political institutions, Honduras ranks in the bottom third relative to all its comparators, with fundamental rights neither guaranteed nor properly defended together with a declining capacity to apply constraints to government powers, signaling state capture. In effect, civil society displays widespread distrust in politicians and a lack of engagement to a worse extent than in most of Honduras's comparators.

**Honduras struggles in terms of integrity, rule of law, and corruption; although there have been some steps taken toward addressing administrative corruption, the challenge of capture by vested interests remains unaddressed.** Between 2015 and 2020 Honduras declined in four of the six Worldwide Governance Indicators,<sup>2</sup> and the quality of governance and institutions has declined across most dimensions of the Bertelsmann Transformation Index (BTI),<sup>3</sup> particularly in the

quality of rule of law and stability of democratic institutions. This trend is supported by findings from other sources, such as the World Justice Project (WJP),<sup>4</sup> which signals that the country performs worse than most Latin American countries when it comes to the rule of law (2021 Rule of Law Index). Honduras also ranks at the bottom of the Latin America and the Caribbean regional distribution with regard to the public integrity of its institutions, according to the 2019 Index of Public Integrity, which shows that corruption and lack of protection of fundamental rights are pervasive. As an expression of the low levels of trust, 48 percent of citizens do not believe Honduras is a democracy; satisfaction with democracy shows a sharp decline from 65.6 percent in 2010 to 35.9 percent in 2018.<sup>5</sup> In 2020, Honduras reached its worst rating on Transparency International's Corruption Perceptions Index<sup>6</sup> since its first ratings in 2012. The country also ranked next to last in the 2020 Latin American Index of Legislative Transparency, showing an increase in favoritism and undue influence that is leading to a decline in public trust in the past five years. Among Hondurans surveyed in early 2021, corruption was identified as the main problem in the country.<sup>7</sup>

**The opportunities for effective citizen engagement in policy making and civil society**

**oversight of the public sphere are limited.** Honduras is rated Partly Free in *Freedom in the World*, Freedom House's 2020 study of political rights and civil liberties worldwide. Although during 2014–19 there were some specific actions linked to social accountability and open government, overall civil society faces serious challenges. Civil society organizations and citizen champions, especially in the human rights and environmental fields, report significant threats, surveillance, and violence aimed at limiting their participation in public policy decisions and actions. In 2016, indigenous and environmental activist leader Berta Cáceres was assassinated in her home; former military personnel and an executive of the dam project she had been speaking out against have been convicted for that crime. International civil society organizations have identified Honduras as one of the most dangerous countries in the world for environmental activism.

**The low capacity of institutions is also related to the weakness of the human resource management system, which is highly politicized and fragmented.** As mentioned earlier, the lack of a coherent legal framework for public employment, with multiple special regimes for occupational groups, and the lack of clear remuneration policy have been the driving forces of the unsustainable public wage bill. The weak institutional arrangements include the lack of a high-level public administration authority responsible for human resource policies across the public sector. Limitations in human resource management allow for the prominence of patronage dynamics, which ultimately help fund political parties and campaigns and give greater discretion to benefit particular interests. Honduras has long been in urgent need of a modern civil service based on merit and performance.

**The broader dynamics of state capture are structural and not new (box 5.1).** Part of the underlying problem lies in the weak separation

of powers between the branches of government, as is evident through the way magistrates are appointed to the Supreme Court, Superior Tribunal of Accounts, and other control institutions; although this has improved recently with the inclusion of civil society groups in the selection process, these processes are still highly political and wrought with conflicts of interest. Additionally, influential special interest groups within sectors can have a direct influence on policy design and implementation; in energy, water, education, health, and other sectors, vested interests have had a role in blocking reforms that would improve efficiency and accountability in service delivery.

Broadly, the institutional determinants that support state capture continue to be a knowledge gap, despite some initial analytical work implemented by the team for this Update.

**A picture emerges of rising fragility and growing inequality in Honduras, driven by impunity, elite capture, violence, and social exclusion, and resulting in the deterioration of the social contract, growing frustration among the populace, and increased outward migration.** Reversing these trends will be the fundamental challenge of the country if it is to escape from the low growth equilibrium into which it has for so long been locked.

## 5.3 Priorities Ahead

### 5.3.1 Approach to Prioritization

**This Update follows the 2015 SCD priorities, adding two additional prioritization criteria, the feasibility of the reforms and the relative urgency to act.** The 2015 SCD prioritization filters included the impact of the policies, their time horizon, the complementarity of those measures, and evidence to support prioritization. The limited track record of successful reforms over the past five years warrants a realistic perspective on what can be achieved and in what timeframe. Successful

### Box 5.1. Challenges of State Capture and Growing Influence of Criminal Elements in Public Spheres

A series of high-profile corruption cases have affected the credibility of the government, undermining public trust and social cohesion. In response to massive protests against one of the biggest corruption scandals in the history of the country (the embezzlement of close to \$330 million from the Social Security Institute, a portion of which financed the National Party campaign in 2013), in 2016 Honduran authorities requested support from the Organization of American States to establish the “Mission to Support the Fight Against Corruption and Impunity in Honduras” (MACCIH). As MACCIH, in coordination with the Office of the Public Prosecutor, began unraveling corruption cases and revealing corrupt networks, some linked to high-level public officials and a group of legislators that allegedly funneled social investment funds for other ends, Honduran authorities took steps to undermine MACCIH’s work, attempting to shield themselves from investigation and prosecution. MACCIH publicly identified this dynamic as an “impunity pact” among the political elite. In that context, authorities were unwilling to extend the mission’s mandate, leading to its closure in January 2020. Additionally, since 2014, court cases in the United States have revealed the deep influence of narcotrafficking and organized crime among high-level politicians across political parties, local elected officials, businesspersons, police, and military in Honduras—most recently, with the sentencing in the United States of the brother of the President of Honduras (as well as a member of the National Congress) to life in prison on charges related to drug trafficking. The United States has publicly called out a series of “corrupt and undemocratic actors,” particularly in the Honduran National Congress and public sector staff. The Global Organized Crime Index 2021<sup>a</sup> identifies the prominence of state-embedded criminal actors in Honduras; and conversely, low levels of resilience to address these problems.

Source: World Bank, “Honduras Risk and Resilience Assessment (2022).”

a. Global Initiative Against Transnational Organized Crime, Global Organized Crime Index 2021, <https://ocindex.net/assets/downloads/global-ocindex-report.pdf>.

past reforms exist but extending them into the future will require continuous attention. With adjustments, other programs implemented by the government could potentially have wider impacts on poverty and growth. For some of the relevant reforms that stalled for years, realistic entry points might be a solution to advance in the right direction. In some cases, the recent context may have triggered a broader conscientization from the society on the urgency to act that could allow the consensus needed to finally advance the reforms.

**Thus, in all cases, promoting the reforms through strategically selected windows, or entry points, whose breadth and depth will be highly dependent on the feasibility and urgency filters, seems warranted for success.** Continuous accompaniment from international stakeholders in the reform process will also be needed. Overall, the reconstruction needs due to the 2020 crises slightly expand the set of critical priorities even with the application of two additional filters.

### 5.3.2 Building on Recent Success to Solidify Achievements

Substantial progress has been achieved with respect to three Complementary Measures identified in the 2015 SCD: prudent macroeconomic management, targeting and coverage of social protection, and improvement in the prevention and management of disaster risks.

**Maintaining and further strengthening macroeconomic and fiscal stability and accelerating the implementation of structural reforms will be crucial to support strong, consistent growth and enduring poverty reduction.** The government will have to balance support for the recovery with a convergence to the FRL targets building on and further advancing the structural reforms started in 2014 (see appendix N, table N.1). Further strengthening fiscal stability will require managing two key entry points: *improving the efficiency of public expenditures* and *managing and mitigating fiscal risks stemming from SOEs, in particular ENEE* (see box 5.2). Building on past reforms, targeted measures, such as implementing a centralized wage bargaining scheme, could contribute effectively in the short term to the first entry point. Progressing on the loss-reduction strategy and containing the recurrence of arrears of ENEE are imperative and, given the size of the company's debts, urgent. As a result, a broad program involving at least adjustment to the tariff policies—with a close eye on the potential impacts on the poorest customers—reduction of costs and losses (technical and thefts), and improvement of energy efficiency of key public sectors (hospital, army, and so on) are warranted. Other reforms for macroeconomic and fiscal stability could target increasing domestic private and public savings and investment through further development of the domestic financial market that would help reduce Honduras's dependency on external factors of growth, improve economic resilience to external and domestic shocks, and strengthen long-term economic growth.

**Further improving the effectiveness of the social protection system to build the resilience of the most vulnerable people is warranted.** Various areas need to be considered, particularly to make social protection more adaptive to climate change and to promote and protect human capital, including expanding the coverage of the social registry considering elements of adaptive social protection and *expanding the coverage of the CCT* to reach all the poor and vulnerable population. It is particularly urgent to provide support to the increased number of poor households resulting from the 2020 twin shocks. In addition, *strengthening payment mechanisms* through an expansion of digital payments would ensure predictable and frequent payments with wide coverage and would promote the financial inclusion of the poorest and most vulnerable people; building skills from the early years until adulthood would promote employability and social inclusion. Additional measures to further boost inclusion are warranted (see box 5.3).

**Finally, while Honduras has made steady progress in disaster risk prevention, the country needs to build resilience to natural shocks, which are expected to intensify with climate change.** As mentioned, Honduras was rated the world's most severely affected country by extreme weather events. Climate change is already affecting crop yields, causing food insecurity in affected areas along the Dry Corridor.<sup>8</sup> Climate change impacts in the Dry Corridor, compounded by the lack of basic needs coverage, are expected to continue to stimulate migration from rural areas to urban centers, outside Honduras, or both. Progress has been achieved on the early management of crisis but *strengthening the resilience of infrastructure and services seems a relevant entry point*, in particular through programs aimed at *improving risk assessments* of public assets and services, *enhancing the resilience standards and norms* for public assets (both green and gray infrastructure), and improving their enforcement



### Box 5.2. Reforms to Further Strengthen Macroeconomic and Fiscal Stability

Rationalizing public sector spending will entail (1) strengthening transparency and accountability of the public sector by enhancing the comprehensiveness of fiscal reports, their monitoring, and their publication; (2) rationalizing and increasing the efficacy of social public spending by enhancing the pro-poor features of targeting mechanisms; (3) significantly redressing the imbalance between recurrent spending, especially the wage bill, and capital expenditure; and (4) strengthening digital government tools, legislation, and institutions in an effort to improve public sector efficiency and consolidate programs into fewer and higher-impact interventions. Moreover, reducing inefficiencies in public spending, especially in procurement, the wage bill, and targeted transfers will be essential to gaining spending efficiency and support planned convergence to the Fiscal Responsibility Law (FRL) targets. Amending the legal framework and strengthening institutions responsible for the civil service are critical.

Managing and mitigating fiscal risks, including those related to two state-owned banks that require recapitalization (Banco Nacional de Desarrollo Agrícola; BANADESA, and Banco Hondureño para la Producción y la Vivienda; BANHPROVI) and Empresa Nacional de Energía Eléctrica (ENEE). Given BANADESA's financing insolvency, a proper resolution should be implemented, limiting the contingent liabilities to the state. While the private financial sector is liquid and solvent, the impacts of the twin shocks should be closely monitored and banks audited to address losses and to manage the fiscal consequences of potential problems. On the energy sector, efforts are needed to improve governance in ENEE and resolve its financial situation, including the restructuring (implementation of the electricity law approved in 2014), keeping electricity tariffs in line with costs, and medium- and long-term structural measures, such as reduction of technical and nontechnical losses and renegotiation of existing contracts with suppliers of generators.

Source: World Bank assessment based on World Bank, "Honduras Social Expenditures and Institutional Review" (World Bank, Washington, DC, 2014); data on debt-related fiscal risks and contingent liabilities from the Honduras Ministry of Finance and from World Bank, "Public Expenditure Review" (World Bank, Washington, DC, forthcoming).

and *building/consolidating institutions in charge of risk management.*

### 5.3.3 Reorienting and/or Accelerating Reforms Where There Has Been Commitment but Limited Results

**Expanding rural access and enhanced quality of infrastructure service delivery across the**

**country is critical.** Targeted programs focusing on high labor–intensity works,<sup>9</sup> starting with the areas most affected by the hurricanes, can accelerate the transformation of the rural economy by helping poor and unskilled people transition out of the rural poverty trap. Approaches based on strong citizen engagement should be preferred as the way to build citizen trust and circumvent risks of fraud and corruption. Further improving access to water, energy, and telecom in rural areas should



### Box 5.3. Additional Measures to Boost Inclusion

Social inclusion in Honduras remains weak, particularly for Indigenous Peoples and Afro-Hondurans (IPAH). These cohorts remain largely unseen in policy making and programming because of statistical invisibility (a knowledge gap), structural discrimination, and their weak voice and agency to demand change. First and foremost, targeted policies and actions need to be based on data. It is important to set norms that allow for the identification of IPAH. Policies and measures that could help overcome some of the barriers then could include (1) promoting a comprehensive framework to ensure that free, prior, and informed consent (FPIC) is defined and instituted in agreement with IPAH, (2) supporting complementary actions to national laws and regulations that are culturally adapted and framed as part of a national response to sustainability and climate change, and (3) focusing on implementing the National Policy Against Racism and Racial Discrimination for an Integrated Development of Indigenous Peoples and Afro-Hondurans (P-PIAH), adopted in 2016.

Source: World Bank assessment, based on two regional reports: Germain Freire et al., *Afro-descendants in Latin America: Toward a Framework of Inclusion* (Washington, DC: World Bank, 2018) and German Freire et al., *Indigenous Latin America in the Twenty-First Century: The First Decade* (Washington, DC: World Bank, 2015), and the assessments and feedback from consultations with Indigenous Peoples and Afro-descendants organizations.

accompany the effort because they have both an inclusion and economic role that can help address the endemic poverty of rural areas. Such measures are urgent for distinct reasons: the reconstruction and improvement of rural access is essential for the poor; the electricity sector represents a huge liability to public finances that needs to be addressed urgently; implementing water and energy sector reforms is a priority in the face of climate change as restrictions to both human consumption and agriculture have already started to materialize; finally, reforms in the digital sector are also urgent if the country is not to lag behind in a rapidly changing world. Priority reforms in infrastructure are listed in appendix O. A natural *entry point is to focus public investment programs on labor-intensive works, beginning with areas most affected by hurricanes, while fostering private sector involvement whenever possible*. For that latter measure to materialize, *strengthening the PPP framework and implementation capacity* is warranted.

#### **The promotion of active labor market policies should first rely on existing successful pilots.**

The Rural Competitiveness Project (COMRURAL) and its complement Corredor Seco Food Security Project (PROSASUR) have shown undeniable success in professionalizing small subsistence agriculture. This approach needs to be widely scaled up to match the rest of the territory. It also needs to identify paths of transition for the 30+ percent of the population working in agriculture toward new jobs. Works in rural roads can offer a temporary solution. Beyond that, new jobs are needed and can rely, for example, on the sophistication of the value chains, with more integration of agribusiness services to raw agriculture. This could entail a wide array of services, from industrial processing close to the site of production to specialized services to agriculture (equipment renting, for example) (see box 5.3). Promoting job creation in labor-intensive sectors (agriculture and construction, for example), especially those with the potential for transformation to boost

external competitiveness (such as agribusiness, manufacturing, business process outsourcing, and information and communication technology) and those concentrated in rural areas would help break the cycle of poverty. Building on past successes, *scaling up COMRURAL and PROSASUR is warranted, and the sophistication of the programs to incorporate more value seems feasible*. Finally, the modernization of agriculture depends on an acceleration of the land tenure reform, notably through strengthening the capacity of the National Registry of Land Management Regulations, modernizing land and property cadasters, streamlining business licensing, and strengthening the land tenure security of the communal lands of the Indigenous Peoples and Afro-descendants.

**While systemically improving business regulation would be warranted to support the private sector, a step-by-step approach testing actions toward more integrated value chains through pilots based on the success of the maquila seems feasible.** Building on the potentials of the country, strengthening the industrial sector will be essential to boost growth and absorb low-skilled rural individuals while providing them with new skills, allowing a smooth transformation of the rural economy. The success and resilience of maquilas provide a formidable terrain of experimentation for measures that could contribute to boosting the industry. *Leveraging successful maquila experience* to profit from nearshoring, fostering trade, attracting foreign investment, and better *linking the maquila sector and the rest of the economy* seem relevant entry points to boost the industry. Short-term measures could, for example, consist of (1) *promoting a vertically integrated value chain and forward and backward links* within Honduras to increase the competitiveness of the maquila industry and strengthen linkages with domestic MSMEs, thus expanding the economic impact of the maquila sector beyond export-oriented firms; and (2) *increasing the absorptive capacity and*

*learning competencies of local workers and firms in non-special economic zone areas* to be able to meet their clients' needs. These and other detailed policy recommendations are outlined in the Honduras CPSD (see also box 5.4).

### 5.3.4 Putting Renewed Emphasis on Areas Where Progress Was Insufficient

**Improving access to basic services is essential and urgent and should entail a strong focus on education and health.** Implementation of key reforms in those sectors has been stalled for years, leading to inefficiencies and poor outcomes. The crises in 2020 were a cruel demonstration of the urgent *need to strengthen those systems*. The recent national elections provide an opportunity to prioritize these sectors and accelerate the implementation of reforms; international financial institutions could assist by piloting and incentivizing relevant efforts.

**The COVID-19 pandemic dealt unprecedented blows to Honduras's growth and equity goals by shutting down an education system that was already underperforming.** The present situation offers an opportunity to rethink both how educational resources are spent and how the quality of the outcome can be improved. Improving learning competencies and technical capacities is essential to build a reservoir of workers able to support the development and complex articulation of firms to enable them to compete in global markets and support the transition toward higher-value-added production. In the short to medium term, *the safe reopening of schools*, including a campaign to motivate and encourage enrollment and school preparedness, *is a priority and a basic entry point* to reactivate the educational system. In addition, efforts should be made to assess all children upon their return to school so that *instruction can be adjusted to learning levels*, ensuring the

### Box 5.4. Additional Measures to Boost Competitiveness and Job Creation

For stronger, more resilient, and more inclusive growth, the country needs to strengthen competitiveness, promote job creation, and build domestic savings and investment (see appendix P). The labor participation rate has increased considerably, but employment creation has been insufficient to absorb the increasing labor supply. Employment creation has primarily concentrated in low-productive services activities. Premature deindustrialization has prevented the incoming labor force from benefitting from knowledge dissemination associated with industrial activities, thus reducing the opportunities for prospective workers to gain access to more high-tech job options. Moreover, the education system offers limited specialized technical training. In addition, job creation in micro, small, and medium enterprises (MSMEs), which account for nearly 70 percent of Honduras's workforce, has decelerated considerably. Honduras should create more quality, formal, and high-paying jobs for the emerging workforce and improve the quality and market relevance of education programs.

The most attractive opportunities to increase export competitiveness involve products in which Honduras already has a comparative advantage and a sizeable market share, but exploiting the full potential of existing exports will require the following: (1) strategic repositioning within current and new value chains, (2) deeper regional integration, (3) transformation and modernization of the domestic market through product diversification and sophistication, (4) improvement of the regulatory framework and business environment, (5) strengthened linkages between export- and foreign domestic investment (FDI)-oriented sectors and the rest of the economy, and (6) a strengthened domestic financial market. Relevant entry points could include reform in the labor market regulations to allow free mobility of the workforce between special economic zone (SEZ) and non-SEZ areas, reforms of intellectual property rights to ease the resolution of patent conflicts, and the reduction of regulatory burden in non-SEZ areas to promote the development of competitive markets.

*Sources:* World Bank staff elaborations based on Veronica Michel and Ian Walker, *Honduras Jobs Diagnostic* (Jobs Series 17, Washington, DC: World Bank, 2019); International Finance Corporation, *Honduras Country Private Sector Diagnostic* (Washington, DC: World Bank Group, forthcoming).

availability of extra support for those who have fallen further behind. These actions, along with current efforts by the government to build remote learning platforms for students, to provide remote professional development for educators, and to deliver printed educational materials packages for children who are not able to participate in remote learning otherwise, could be leveraged and built upon to expand access to quality and accessible

education for all students. This would require the careful integration of these efforts into the education system as well as a considerable investment in expanding access to digital devices and to connectivity, which currently is very limited and unequally distributed.

**Honduras will need to spend more and better on health to effectively address major health**

**emergencies such as COVID-19.** In light of the existing challenges facing the sector that have been further compounded by the COVID-19 pandemic, the health sector must act using a multipronged approach that prioritizes (1) *preparedness and response to health emergencies*, including pandemics and natural disasters, particularly through the urgent *upgrading of equipment, infrastructure, and governance of the nationwide surveillance and laboratory network*; and (2) *equitable access to high-quality primary care services*. This would entail ambitious policy changes involving, for example, *increasing immunization coverage* to reach the growing number of children with no access to vaccines (“zero dose children”), *leveraging community-based nutrition programs* to address the ever-growing overweight epidemic, and *establishing a quality referral network across the country* to ensure the continuity of quality care for pregnant women and mothers. Underpinning all policy recommendations is a need to enhance the Ministry of Health’s governance of the health sector so that it can more effectively address systemic deficiencies that hamper service delivery at the central and subnational levels. COVID-19 showed the deliquescence of the *health system and the urgency to improve it*.

### 5.3.5 Policy Levers to Address the Vicious Cycles Identified in the 2015 SCD

**Effectively implementing the policy levers identified in the SCD will require time, consistency, and a careful evaluation of the risks and potential unintended consequences of the proposed interventions given the complex environment.** The SCD recommendations on the policy levers to break the cycle between crime and violence and low growth broadly remain pertinent as it remains a key roadblock to growth and poverty reduction. International experience suggests that “hard” approaches to fighting crime

and violence need to be complemented with “soft” approaches to reduce the likelihood that children and youth will drift into criminal activities and gang membership. Investments in family mental health services as well as *creating opportunities for youth that compete with gangs* seem feasible to disrupt the recruitment pipeline and develop strong, cohesive communities. *Addressing urban decay and building community infrastructure and public spaces* can also contribute to this agenda. Reforms to incentivize the middle class—the people with enough voice and power to change the system—to participate in efforts to reduce crime is also key.<sup>10</sup> Interventions aimed at reducing gender-based violence offer promise in reducing overall levels of crime and violence. Available evidence suggests that reforming gender-biased legislation can increase women’s engagement in the private sector workforce,<sup>11</sup> which combined with enhancing security from violence and harassment of women in workplaces can, in turn, foster economic growth. International organizations need to coordinate their efforts to support dedicated programs by government but also to support civil society efforts to demand action to address the problem. *The entry point would thus lie in soft policy to be defined once the knowledge gap identified is closed.*

**Better understanding the key drivers of migration and identifying measures that could optimize its benefits for the country seems warranted.** Supported by the International Organization for Migration, the United Nations High Commissioner for Refugees, the United States Agency for International Development, and other development partners, Honduras has made progress in recent years in managing its emigration with the creation of the National Migration Institute and the National Council for the Protection of Honduran Migrants as well as the strengthening sectoral agencies providing services to Honduran emigrants and migrants in transit.

However, the country still lacks an integrated migratory policy that aligns various sectoral competencies into a comprehensive framework. Key elements to consider could include (1) investing in employable skills, (2) fostering resilient infrastructure and services in communities where projected climate-change impacts are expected to trigger emigration, (3) implementing a policy framework and guidelines to manage vulnerable populations in sending communities and for migrant populations in transit, and (4) strengthening links to the diaspora (the cost of sending remittances is already among the lowest in the region) and facilitating the migrants' return. The benefits and drawbacks of migration is a new knowledge gap that will be addressed with analytical work in 2022, and *specific entry point(s) will be identified when supporting analytical work to close the knowledge gap is concluded (2022).*

**Finally, at the heart of Honduras's challenges for development, improving the low quality of institutions and limiting capture by elites remain of utmost priority.** A nuanced analysis of the context of state capture and economic interests is critical for the design and implementation of effective and sustainable interventions.

- **The focus areas identified in the 2015 SCD—strengthening the rule of law and the judiciary, building capacity, and enhancing the accountability framework—remain relevant.** However, they need to be complemented by additional measures stemming from an understanding of the implications of capture by elites and interest groups. While priority action areas may seem clear, it will be important for reformers, stakeholders, and development partners to carefully and periodically consider the most appropriate courses of action. Communication and coordination in this regard, coupled with sober assessments of the trends in governance and

fragility risks, may help tailor country engagement programs in a timely manner. While, in a context of capture, it is not clear how readily elites will help embark on (or allow for) a path toward sustainable reform,<sup>12</sup> smaller steps in this direction over the short term, considered *entry points*, could include *strengthening access to justice in lower courts, addressing loopholes in the legal-administrative framework* that allow for discretion (starting with mandating the publication of asset declarations of public servants, establishing clearer rules and accountability on conflicts of interest, and improving access to information), *bolstering capacities of the Special Prosecutorial Unit Against Corruption Networks*, and modernizing accountability institutions to improve the effectiveness of their oversight role.

- **Moving forward, there is a need to reinforce the supply and demand for good governance.** On the supply side, much more needs to be done to reinforce transparency and openness to prevent mismanagement of public resources and to build citizens' trust in the capacity of government to allocate and invest taxpayers' money with efficiency and integrity. Building on progress, such as that achieved by initiatives like the Open Government Partnership and the Infrastructure Transparency Initiative, Honduras could *reinforce transparency and openness in the use of public resources and policy making while building monitoring and evaluation systems and statistical capacity*. On the demand side, an entry point could be *strengthening the capacity of civil society* to play a much more active role in demanding accountability from government. A focus on *renewing the social contract from the local level*, starting in select municipalities, is another possible entry point, fostering enhanced *community engagement approaches* to local development from which lessons can be drawn. Additionally, it



is critical for Honduras to build trust with local communities and ensure that public institutions dedicated to the defense of human rights, particularly the rights of Indigenous Peoples and Afro-descendants, are appropriately staffed, well equipped, and sufficiently independent to ensure the protection of rights and the appropriate and just handling of grievances, which, if left unattended or mismanaged, can fuel conflict.

**The 2015 SCD priorities—reflecting the criteria of impact, time horizon, complementarity, and evidence base—remain largely relevant today.** The SCD Update introduces two new filters, the *feasibility* of the measures and the relative *urgency* to act. The resulting priorities appear in table 1.1. They are the same as the 2015 SCD priorities but with complements and nuances incorporated in *italics* in the table. In addition, the table highlights a few entry points that are promising first steps to initiate or further pursue reforms in the priority areas.

### 5.3.6 A Positive Context for Reform

**While these are far-reaching goals, elements of context may provide opportunities to improve governance.** First, the government alternation after the November 2021 elections is an opportunity to reverse the negative trends observed in the past five years, notably on governance, and to accelerate reforms. A new government will have the opportunity and responsibility to chart a course consistent with the recovery and reconstruction needs of the country and to address the critical constraints to growth. On the international scene, the United States has placed renewed focus on corruption and weak institutions as one of the key drivers of migration from northern Central America and has announced that this will be a major focus of its development assistance. The incoming

government could take advantage of the growth perspectives offered by the rebound of the international economy and the prospect of the United States prioritizing shorter value chains and near-shoring. The nature of international markets, particularly the demand for greener products, may provide opportunities for the agriculture and the manufacturing sectors, provided these sectors can adapt to this new demand. The country's access to submarine cables provides potential opportunities to develop the digital economy. The demographic dividend is yet another important opportunity, provided the job market is reformed to enable greater flexibility and formalization. Finally, while much has already been done, further strengthening the regional market and deepening the integration of the economies of Central America will offer development opportunities.

## Notes

1. The institutional benchmark analysis consists of identifying institutional gaps by comparing Honduras with a set of country comparators through a benchmarking exercise that measures the distance to the frontier of aggregated indicators grouped according to nine institutional families.
2. Honduras declined in four of the six Worldwide Governance Indicators, specifically voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, control of corruption, and rule of law.
3. The BTI measures changes in three main dimensions: political transformation, governance index, and economic transformation.
4. World Justice Project (WJP) indicators signal that executive and legislative officials have institutionalized the use of public office for private gain and offer a series of supporting conclusions. This malpractice has been ranked as one of the most severe in the world; effective constraints and oversight on government powers are weakening, undermining accountability; the capacity to enforce regulations lags behind other countries in Latin America and the Caribbean, and it has stalled over the past five years. Improper influence and lack of respect



for due process in administrative proceedings are the main explanations for the weak regulatory enforcement.

**5.** See Latin American Public Opinion Project (LAPOP), “Barometro de las Americas.”

**6.** Corruption Perception Index 2020, “Honduras Summary Report” (Transparency International and Asociación para una Sociedad más Justa, 2021). <http://biblioteca.asjhonduras.com/wp-content/uploads/2021/01/IPC2020-resumen.pdf>.

**7.** See [CID Gallup poll](#) from January 2021, as reported in “A hondureños les preocupa más el desempleo que el coronavirus: CID Gallup.” In addition, half of Hondurans surveyed think the government did a poor job of managing the hurricane disasters in late 2020; only 19 percent think it did a good or excellent job.

**8.** World Bank Group. *Disaster Risk Management Series No. 5, Natural Disasters Hotspots: A Global Risk Analysis*. 2005. Washington, DC, The World Bank.

**9.** Road works alone could create close to 50,000 jobs for each billion dollars invested. See *Jobs and Distributive Effects of Infrastructure Investment: The Case of Argentina* (Washington, DC: World Bank, June 2021).

**10.** See Rachel Kleinfeld, *A Savage Order: How the World’s Deadliest Countries Can Forge a Path to Security* (New York: Pantheon Books, 2018).

**11.** See Asif Islam, Silvia Muzi, and Mohammad Amin, “Unequal Laws and the Disempowerment of Women in the Labor Market: Evidence from Firm-Level Data” (Policy Research Working Paper 8202, World Bank, Washington, DC, 2017).

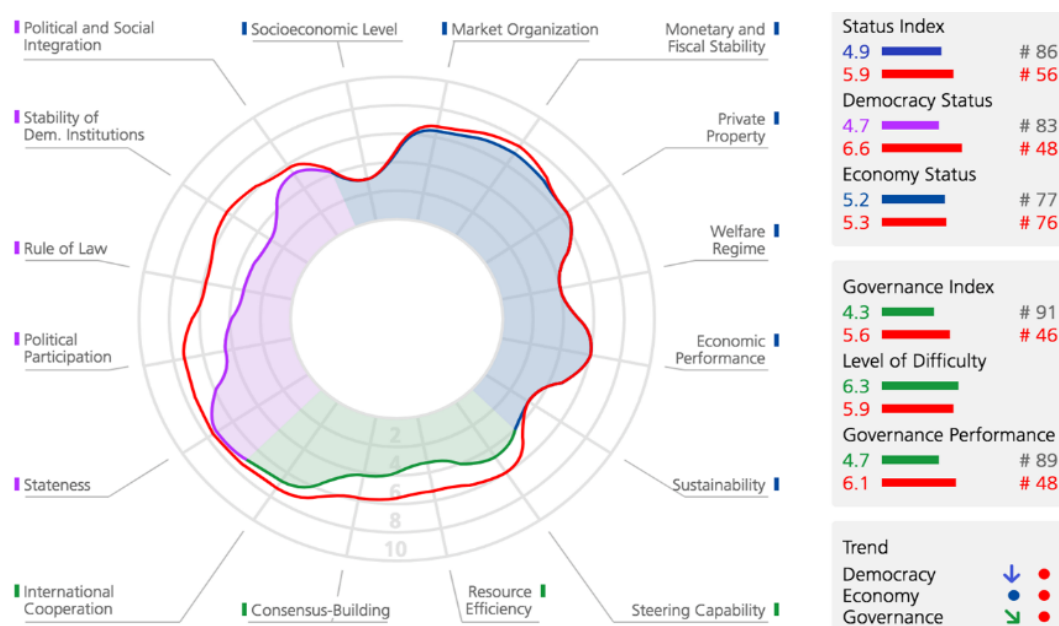
**12.** Several of the recommendations for addressing gaps in the accountability framework build on the World Bank’s 2009 Honduras Institutional and Governance Review (IGR), which underlined the need for (a) improving transparency in key policy-making and decision-making processes; (b) strengthening mechanisms to hold policy makers and decision-makers to account, especially in cases of poor performance; and c) supporting citizen groups that represent the broader public interest to participate in policy discussions.

# Appendixes

## Appendix A: Institutional Quality

### A.1 Developments over the 2016–20 Period Show a Decline in the Quality of Institutions

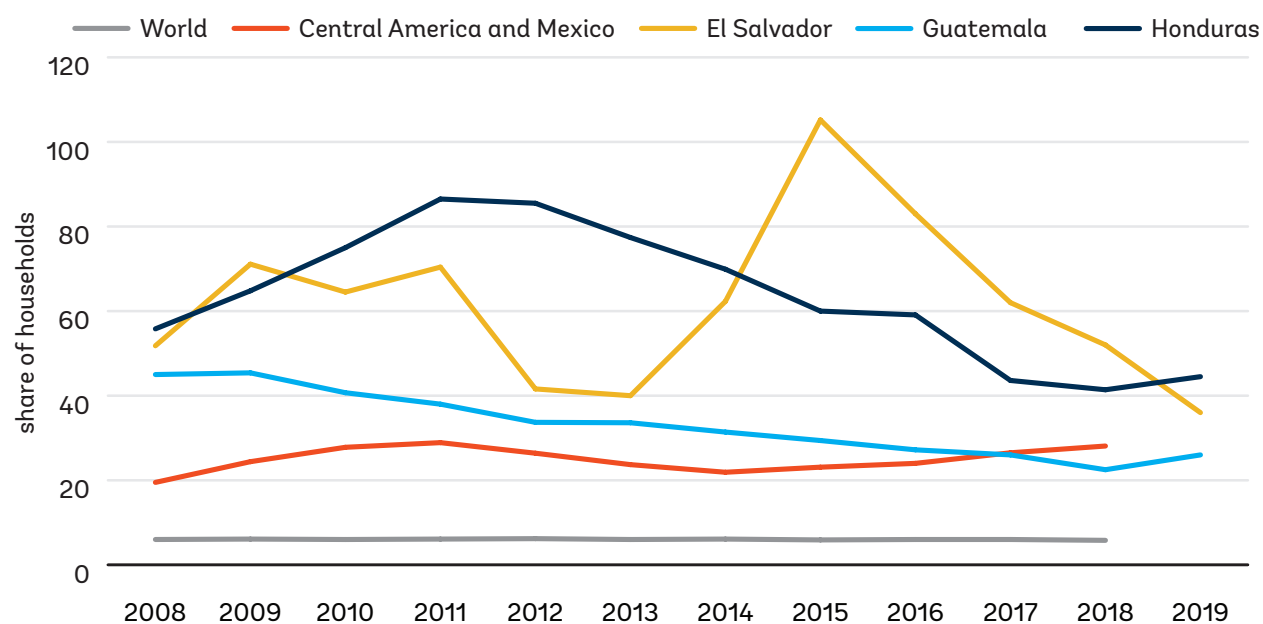
Figure A.1. Institutional quality between 2016 and 2020



Source: Bertelsmann Transformation Index, 2016–20

## A.2 Homicide rate, Honduras and World, 2008–19

Figure A.2. Homicide Rate: Honduras, World, and Selected Countries, 2008–19



## Appendix B: Knowledge Gaps

**Table B.1. Knowledge Gaps, 2015 and 2022**

Knowledge Gaps Identified in the 2015 Systematic Country Diagnosis	Update available?
What are the determinants of low returns to investment in Honduras?	No
What is the full cost of crime to the Honduran economy?	Partially. Global Peace Index 2021.
What is the effect of labor market regulations on job creation, informal employment, and unemployment in Honduras?	Partially. <i>Honduras Jobs Diagnostics</i> , 2020 <sup>a</sup>
What is the impact of the country's high minimum wages on job creation, particularly for unskilled workers?	Yes. <i>Honduras Jobs Diagnostics</i> , 2020
What are the challenges facing increased female inclusion into the labor force?	Partially. Muller and Sousa 2020 <sup>b</sup>
How does crime affect the welfare of the bottom 40 percent in Honduras?	No
What is the relationship between vulnerability, extreme weather events, and poverty?	No. Country Climate and Development Report (2022)
Knowledge Gaps identified in the Systematic Country Diagnosis Update	Planned Analysis to address them?
What is the interplay between Honduras' development goals and climate change?	Country Climate and Development Report (2022) and Climate Change Institutional Assessment (2022).
Unpacking the government policies on disaster risk management: what results have been achieved and how to build on them?	Partially. Post-disaster Public Financial Management Assessment (2020, internal World Bank document).
The real impacts of migration: how does migration affect countries' development patterns and what policies can optimize such contributions?	Partially. World Bank 2019 and Clemens 2014. NCA Migration (2022).
What are the institutional determinants that support state/institutional capture?	No
What are the institutional obstacles and weaknesses that undermine the fair and even application of justice?	No
What is the welfare situation and what are the challenges facing the historically most excluded and vulnerable groups?	World Bank study on Afro-descendants and labor inclusion in Honduras (2022) and future work based on the 2023 Population Census and 2022–23 National Income and Expenditure Household Survey, which will include ethnicity variables.
Beyond repression, what policies can have short- to medium-term impacts on crime and violence?	No

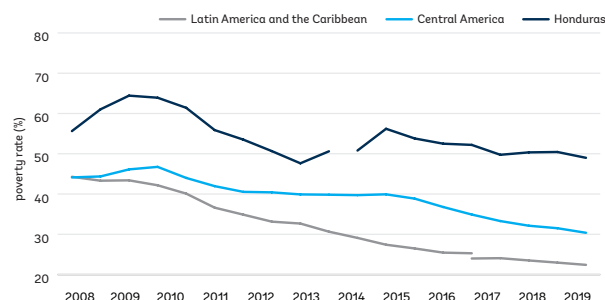
a. Veronica Michel and Ian Walker, *Jobs Diagnostic: Honduras* (Washington, DC: World Bank Group, 2020).

b. Miriam Muller and Liliana D. Sousa, "'She Helps Me All the Time.' Underestimating Women's Economic Engagement in Rural Honduras" (Policy Research Working Paper 9217, World Bank, Washington, DC, 2020).

## Appendix C: International Benchmarking: Poverty and Inequality

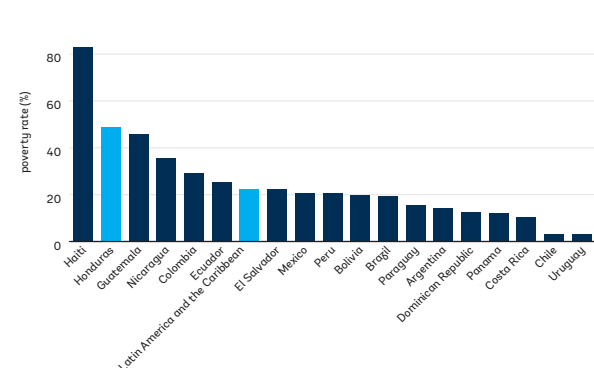
**Figure C.1. Honduras's Poverty Is Higher than in Central America and the Latin America and Caribbean Region**

Poverty headcount ratio at \$5.50 a day (2011 purchasing power parity)



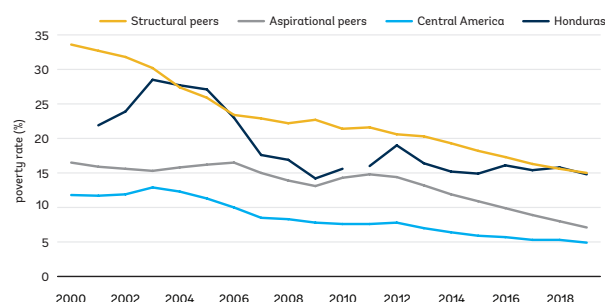
**Figure C.2. Honduras Has the Second-Highest Poverty Rate in the Latin America and Caribbean Region, circa 2019**

Poverty headcount ratio at \$5.50 a day (2011 purchasing power parity)



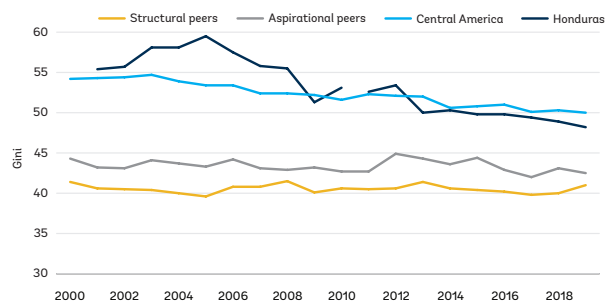
**Figure C.3. Honduras' Structural and Aspirational Peers Have Experienced Stronger Poverty Reduction since 2014**

Poverty headcount ratio at \$1.90 a day (2011 purchasing power parity), peers (2000–19)



**Figure C.4. Honduras Shows Consistently Higher Inequality Levels Than Its Structural and Aspirational Peers**

Gini coefficient, peers (2000–19)



Source: PovcalNet and the LAC Equity Lab (using SEDLAC; Socio-Economic Database for Latin America and the Caribbean).

Note: Appendix D describes how the aspirational and structural peers were identified. The structural peers are El Salvador, Lao People's Democratic Republic, Nicaragua, and Senegal. The aspirational peers are Benin, Cambodia, the Dominican Republic, and the Philippines. The average Gini coefficient was calculated for structural and aspirational peers. Care should be taken in interpreting the Gini coefficient across regions, as many countries outside the Latin America and the Caribbean region rely on welfare aggregates based on consumption, while in Latin America and the Caribbean, the welfare aggregate is based on income. Income-based inequality measures tend to be higher than consumption-based measures.

## Appendix D: Definition of Peer Countries

The Systematic Country Diagnosis Update uses the same definition of peer countries as in the ongoing Honduras Public Expenditure Review (PER) in order to compare Honduras's performance from different perspectives. For the international benchmarking exercise of Honduras, three groups of countries are considered: regional peers represented by the Central American average (including the Dominican Republic), structural peers, and aspirational peers. The criteria below were used to select the set of structural and aspirational peers using the Country Economic Memorandum (CEM) 2.0 Tool.

### Structural Peers

Under this classification, the tool identifies countries with similar economic/social or demographic performance as Honduras. The analysis relies on a proximity statistical method by using a predefined set of variables. The variables selected for the period 2010–19 are the following:

1. Total population: To consider the size of the country as a constraint and thus include small countries in terms of population.
2. Percent of population ages 15–64, % total: To include countries where the population is young, given the relevance of this as a labor factor endowment and to the growth model.
3. Tax revenues as % of gross domestic product (GDP): To include countries with a high level of tax revenues and little space to increase them.
4. Valued added manufacturing: To include economies where manufacturing is the relevant sector.

5. Human Capital Index: To consider the quality of the labor force in terms of education and health attainment.<sup>1</sup>
6. GDP per capita (purchasing power parity, constant 2017 international \$): To limit the selection to countries that are lower-middle-income.
7. Global Climate Risk index 2000–19: To account for the level of exposure and vulnerability to extreme climate-related events.<sup>2</sup>

In addition, countries that are net hydrocarbon exporters were excluded. All indicators are weighted equally.

The analysis suggests the following structural peer countries: El Salvador, Lao People's Democratic Republic, Nicaragua, and Senegal.

### Aspirational Peers

This classification presents countries that possess similar structural conditions but have evolved and overperformed when compared to Honduras. Specifically, based on the set of variables, the tool identifies the countries that have achieved remarkable progress in a specific target variable. For the period 2010–19, the target variables are annual GDP per capita growth and government effectiveness to capture countries that are structurally similar. For measuring government effectiveness in countries that have achieved high rates of productivity, the set of variables used are (in this order): government effectiveness, rule of law, and voice and accountability.

The analysis suggests the following aspirational peer countries: Benin, Cambodia, the Dominican Republic, and the Philippines.



## Appendix E: Update of the Official Poverty Measurement Methodology

In October 2018, the government of Honduras decreed the creation of a **High-Level Poverty Commission to lead the political dialogue in relation to the measurement of monetary and multidimensional poverty**. The government also created a Technical Poverty Commission responsible for the review of the poverty measurement methodology. The technical commission continues to be coordinated by the Secretaría de Coordinación General de Gobierno (SCGG) and the Instituto Nacional de Estadística (INE) and includes the Ministry of Finance, Ministry of Labor, Secretary of the Presidency, and Central Bank of Honduras (BCH). The Technical Commission also includes several organizations, including the World Bank, as collaborators in an advisory capacity.<sup>3</sup> The World Bank was asked to lead the core technical team. The work was undertaken throughout 2019, and the new official poverty numbers were released in January 2020.

**Three main adjustments were done to the official income aggregate: (1) recalculation of income aggregates by applying best practices to the treatment of extreme values, missing values, and others; (2) inclusion of income corresponding to the 13th and 14th monthly salary (commonly known as *aguinaldo* and *catorceavo* in Honduras); and (3) inclusion of an estimate of income corresponding to imputed rent for homeowners.** On average, these changes increased official household income by 16 percent for 2014–18.

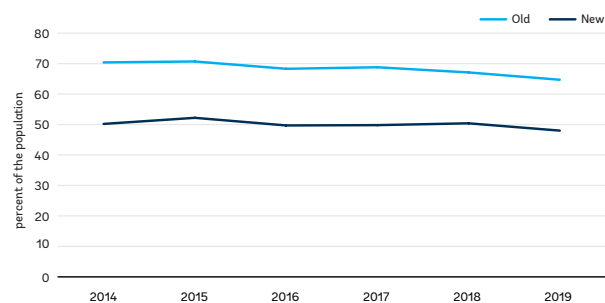
**Official poverty lines were updated using the latest National Income and Expenditure Survey (ENIGH, in Spanish) and methodological advances in the poverty measurement**

**literature.** The old poverty lines were based on an outdated basket of basic products from the 1978 ENIGH. The main adjustments include (1) adopting new caloric requirements and (2) calculating household food and nonfood consumption using the latest 1998 ENIGH instead of the 1978 ENIGH, among others. The new poverty lines are between 20 and 25 percent lower than previous ones. Moreover, when converted to purchasing power parity prices, they are more in line with what would be expected for a lower-middle-income country. A more recent ENIGH will be in the field throughout 2022 and will be the most up-to-date source of consumption patterns of the Honduran population. With this new survey, official poverty lines are expected to be updated again.<sup>4</sup>

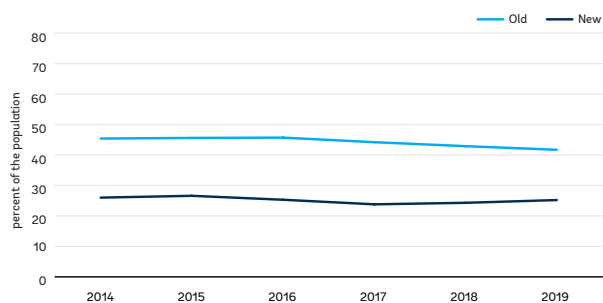
**New official poverty estimates indicate that poverty levels are lower than previously thought but confirm that poverty reduction has been weak in recent years.** The increase in income and the decrease in the poverty lines have compounding effects that lead to a strong decrease in poverty rates. The new figures show that 48 percent of Hondurans lived below the poverty line in 2019, while 25.2 percent were living in extreme poverty. Poverty and extreme poverty have shown little decline since 2014, with extreme poverty instead increasing slightly from 24.9 percent in 2014 (figure E.1). The percentage of people who were living in poverty in rural areas (57.7 percent, using official poverty lines) was higher than those living in poverty in urban areas (39.9 percent). Inequality continues to be among the highest in the region with a Gini coefficient of 49.9 in 2019, relatively stagnant for the past five years (figure E.2).<sup>5</sup>

**Figure E.1. New Official Poverty Estimates, National (2014–19)**

**a. Moderate Poverty**

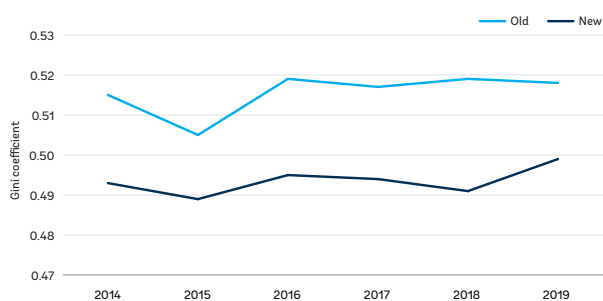


**b. Extreme Poverty**



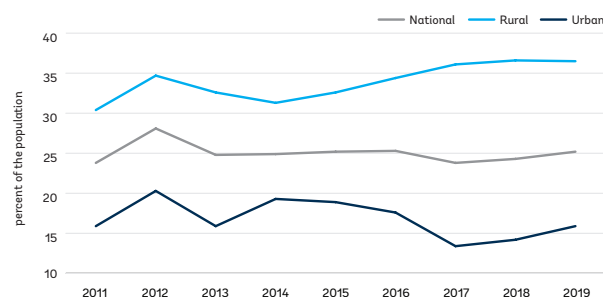
The new harmonized microdata in the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) uses the revised raw data from the Honduran National Statistics Institute for 2014–19. The SEDLAC series is affected by more thorough data cleaning and inclusion of the 13th and 14th-month salaries. These two components changed the harmonized income aggregate for 2014–19 and resulted in a break in the series.

**Figure E.2. New Official Gini, National (2014–19)**



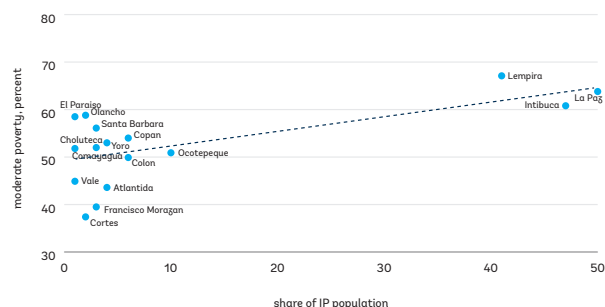
# Appendix F: Trends in Poverty Reduction, Shared Prosperity, and Inequality

**Figure F.1. Extreme Poverty**  
Extreme Poverty (% individuals)



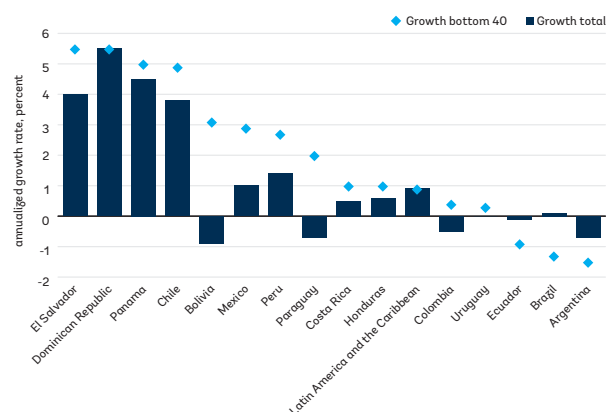
Source: Instituto Nacional de Estadística, EPHM 2014 and 2013 Census.

**Figure F.2. Departments with Higher Indigenous Population Shares Are Correlated with Higher Poverty**  
Moderate Poverty and Indigenous Population



Source: World Bank estimates using INE's 2013 Population Census projections and EPHM 2019.

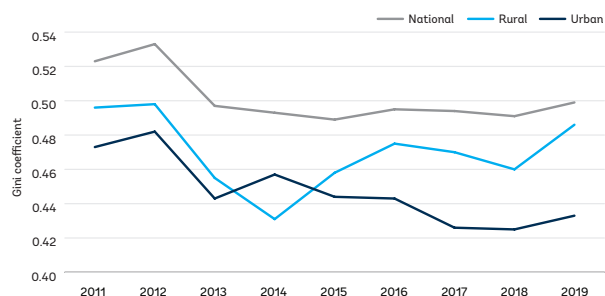
**Figure F.3. Shared Prosperity (2014–19)**  
Annualized growth rate of income for the poorest 40% and the overall population



Note: Data covers 2014–19, except Chile (2013–17), the Dominican Republic (2017–19), Mexico (2016–18), and the Latin America and the Caribbean (LAC) aggregate (2015–19). The regional aggregate is based on 18 countries in the region for which microdata are available at the national level.

Source: LAC Equity Lab tabulations of SEDLAC (CEDLAS and the World Bank).

**Figure F.4. Gini Coefficient**



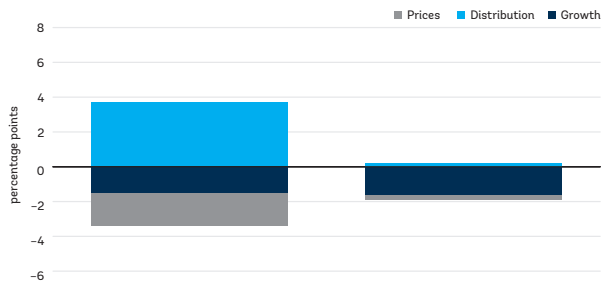
Source: World Bank estimates using the EPHM.

## Appendix G: Drivers of Poverty Reduction

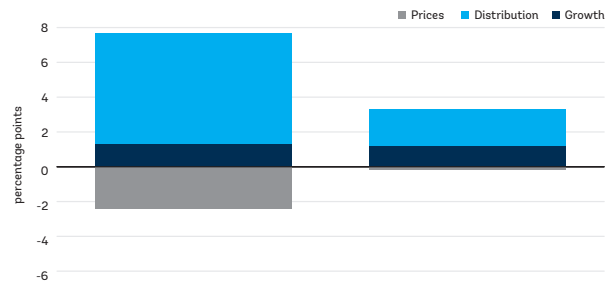
**Figure G.1.** Income Growth and Its Distribution Drove Changes in Poverty between 2014 and 2019

Contribution of income growth, income distribution, and prices to poverty changes by area (percentage points)

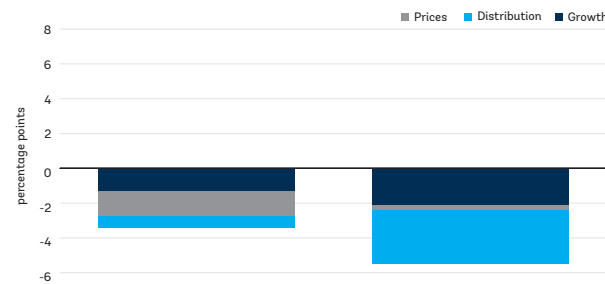
### a. National



### b. Rural

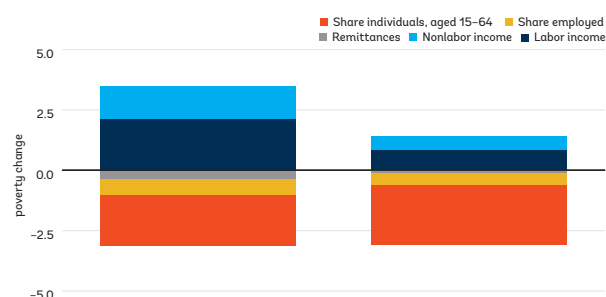


### c. Urban



**Figure G.2. The Demographic Dividend Compensated for Declines in Labor and Nonlabor Income**

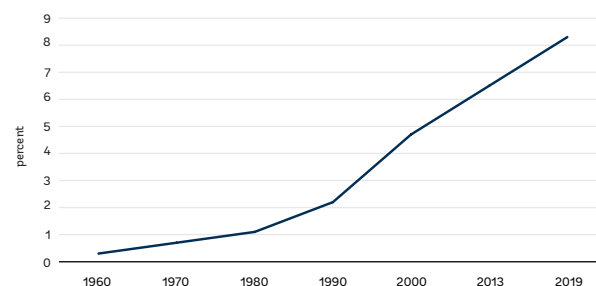
Poverty change by income source, 2014–19



Source: World Bank estimates using the EPHPM.

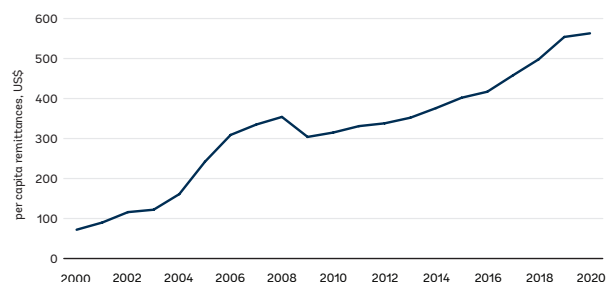
Note: Shapley decomposition was developed by Joao Pedro Azevedo, Minh Cong Nguyen, and Viviane Sanfelice, “ADE-COMP: Stata Module to Estimate Shapley Decomposition by Components of a Welfare Measure” (Statistical Software Components S457562, Boston College Department of Economics, 2012, revised January 12, 2019), based on Ricardo Paes de Barros et al., “Uma Análise das Principais Causas da Queda Recente na Desigualdade de Renda Brasileira,” *Revista Econômica* 8, no. 1 (2006): 117–47.

**Figure G.3. Stock of Emigrants to the US as a Share of the Overall Honduran Population (1960–2019)**



Source: World Bank estimates based on American Community Surveys and US Census (for emigrants) and based on the Honduran Central Bank (for remittances).

**Figure G.4. Per Capita Remittances in Current US\$, 2001–20**



Source: World Bank estimates based on American Community Surveys and US Census (for emigrants) and based on the Honduran Central Bank (for remittances).

## Appendix H: Profile of the Poor and Nonpoor Populations in Honduras, 2014-2019

**Table H.1.** Profile of the Poor and Nonpoor Populations, 2014 and 2019

	2014				2019			
	Extreme poor	Poor	Nonpoor	All	Extreme poor	Poor	Nonpoor	All
Household								
Percentage in each category	24.9	49.7	50.3	100.0	25.2	48.0	52.0	100.0
Daily per capita income 2011 USD PPP	1.7	2.8	12.8	7.8	1.6	2.8	12.8	8.0
Average household size	6.1	5.8	4.8	5.3	5.9	5.7	4.6	5.1
Average age of household head	45.5	45.6	47.6	46.7	49.1	49.2	50.5	50.0
Households with female head (%)	30.9	32.4	34.9	33.8	29.8	33.1	33.8	33.5
Living in urban area (%)	41.1	48.5	57.6	53.1	34.5	45.6	63.2	54.8
Average years of education of household head	3.7	4.1	7.0	5.7	4.0	4.4	7.4	6.1
School enrollment (% ages 6–12)	92.7	94.1	93.7	93.9	90.8	92.2	96.4	93.8
School enrollment (% ages 12–18)	44.8	51.4	61.4	56.0	47.8	51.3	68.8	59.3
Proportion of members 0-12 years old (%)	36.7	34.3	22.5	28.4	34.6	31.9	19.9	25.6
Proportion of members 13–18 years old (%)	16.6	16.3	14.0	15.1	14.5	14.5	11.6	13.0
Proportion of members 19–70 years old (%)	43.7	46.4	59.6	53.1	46.6	49.4	63.6	56.8
Proportion of members 70+ years old (%)	2.9	3.0	3.9	3.4	4.3	4.3	5.0	4.6



	2014				2019			
	Extreme poor	Poor	Nonpoor	All	Extreme poor	Poor	Nonpoor	All
Access to Services								
Internet at home (%)	2.7	4.7	23.3	15.2	8.4	11.5	38.0	26.6
Internet use (%)	17.7	23.7	50.3	38.6	37.1	45.8	76.2	63.1
HH with access to electricity (%)	72.8	79.5	92.3	86.7	84.5	88.5	97.1	93.4
HH without access to water (%)	17.0	13.7	6.6	10.1	14.4	10.5	2.7	6.5
HH without access to sanitation (%)	20.8	16.0	6.5	11.2	11.5	9.0	3.7	6.2
Labor force (ages 15–65)								
Labor force participation (%)	59.8	60.9	69.1	65.4	57.7	59.8	71.1	66.2
Female labor force participation (%)	35.6	38.5	54.1	47.0	32.1	36.7	57.3	48.3
Male labor force participation (%)	88.2	87.0	85.8	86.3	87.0	86.9	86.5	86.7
Unemployment rate (%)	7.5	6.6	4.4	5.3	7.0	7.5	5.3	6.2
Female unemployment rate (%)	3.6	3.3	2.1	2.6	4.1	4.3	2.8	3.4
Male unemployment rate (%)	3.9	3.4	2.2	2.7	2.9	3.3	2.5	2.8
Informality (%)	98.3	94.6	69.3	79.8	99.2	96.0	72.8	81.7

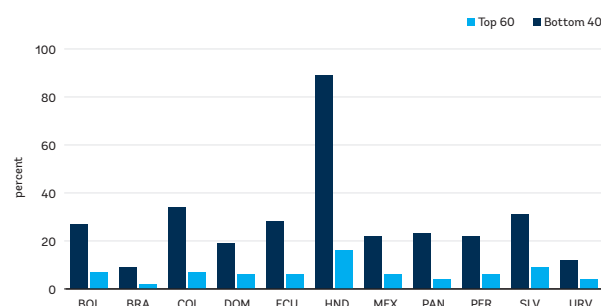
Source: World Bank estimates using the Encuesta Permanente de Hogares (EPHPM) 2014 and 2019.

Note: HH = household.

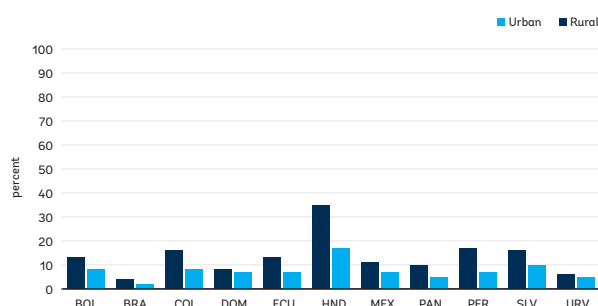
# Appendix I: Unequal Access to the Internet and School Enrollment

**Figure I.1.** Internet Cost as a Share of Per Capita Household Income across Countries

**a. Income groups (circa 2019)**



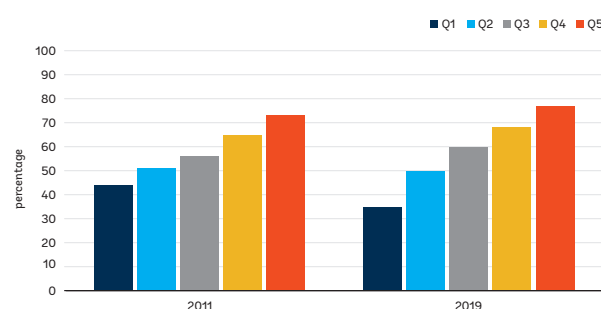
**b. Geographic areas (circa 2019)**



Note: Workers are classified into income deciles based on their per capita household income using country distributions. Relative internet cost is calculated as the ratio of the monthly price for a fixed broadband 5-gigabyte plan over the average monthly income per capita (both variables expressed in purchasing power parity, 2011 international dollars). Internet price data are at the country level. Data refer to the most recent year of data available in SEDLAC.

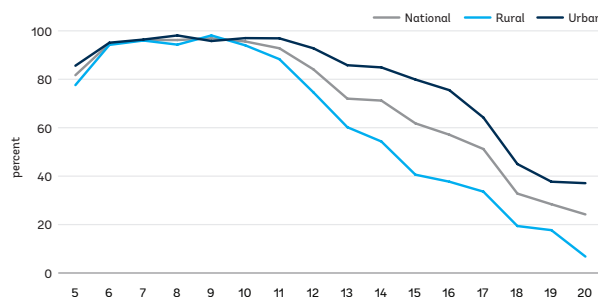
Source: R. Llovet Montanese et al., *Working from Home in LAC: Enabling Factors and Inequality Implications* (Washington, DC: World Bank, forthcoming).

**Figure I.2.** Secondary Gross Enrollment by Quintile, 2011 and 2019



Source: World Bank estimates using the EPHM 2011 and 2019.

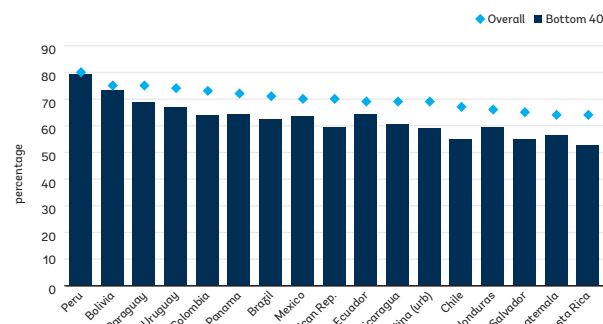
**Figure I.3.** Honduras Urban-Rural Enrollment, Ages 5-20 (2019)



Source: World Bank estimates using the EPHM 2019.

## Appendix J: Lack of Opportunities in the Labor Market

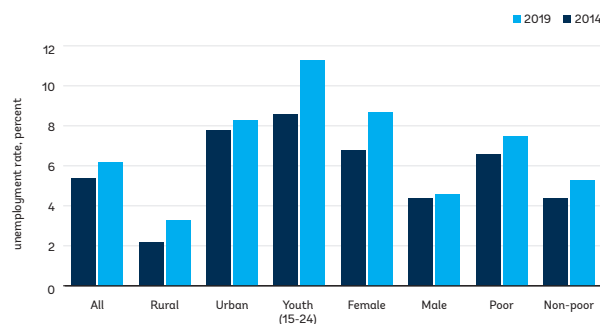
**Figure J.1. Labor Force Participation, by Country and Bottom 40, Circa 2019**



Note: Labor force participation reported for individuals ages 15–64.

Source: Socio-Economic Database for Latin America and the Caribbean, SEDLAC (CEDLAS and World Bank).

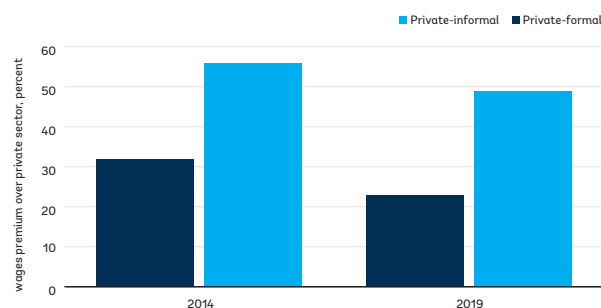
**Figure J.2. Unemployment Rate for Select Groups, 2014 and 2019**



Note: Unemployment and sector of employment reported for individuals ages 15–65.

Source: World Bank estimates using the EPHPM 2019.

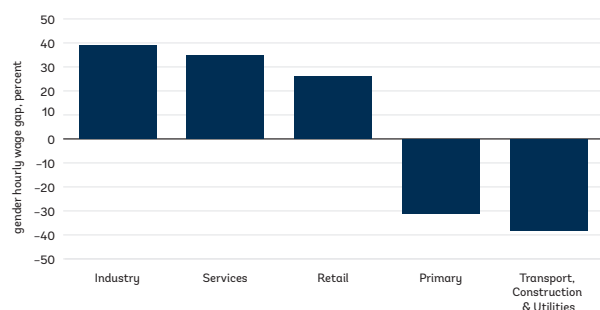
**Figure J.3. Public Sector Wage Premium, by Type of Private Sector Firm, 2014–19**



Note: Formality is defined as contributing to the social security system. The analysis is limited to wage-earning individuals ages 18–65. Public sector wage premiums are estimated using decompositions from A. S. Blinder, “Wage Discrimination: Reduced Form and Structural Estimates,” *Journal of Human Resources* 8, no. 4 (1973): 436–55 and R. Oaxaca, “Male-Female Wage Differentials in Urban Labor Markets,” *International Economic Review* 14, no. 3 (1973): 693–709, and controlling for years of education, years of education squared, experience, experience squared, gender, urban status, and part-time status (working less than 30 hours per week). The premium is calculated relative to the formal/informal private sector.

Source: World Bank estimates using the EPHPM 2014–19.

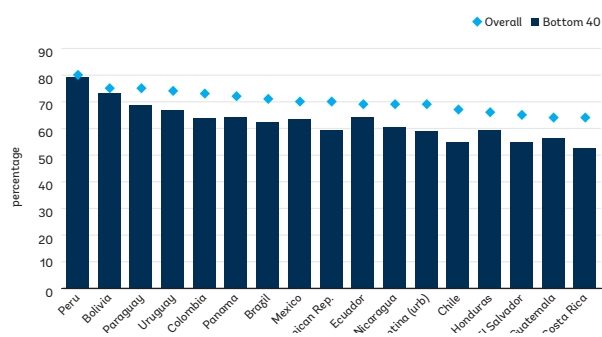
**Figure J.4. Gender Wage Gap by Sector, 2019**



Note: Estimates limited to working individuals ages 15–65.

Source: World Bank estimates using the EPHPM 2019.

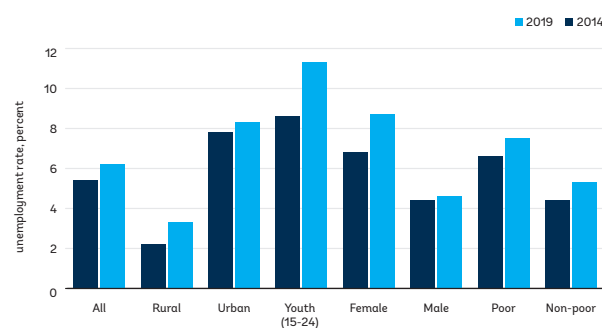
**Figure J.5. Working from Home, by Country**



Note: First and last year for Honduras are 2015 and 2019.

Source: R. Llovet Montanese et al., *Working from Home in LAC: Enabling Factors and Inequality Implications* (Washington, DC: World Bank, forthcoming).

**Figure J.6. Households Reporting Income Loss in May and August 2020 (percent)**



Source: World Bank High Frequency Surveys.

## Appendix K: Selected Industries and Their Growth Challenges and Opportunities

**Modernizing the agricultural sector is essential to transform the rural economy, boost growth, and reduce poverty.** The sector's contribution to the GDP remained around 14 percent in 2019, accounted for 34.4 percent of total exports in 2019, and has played an important role in ensuring the country's food security and employment (30.2 percent of the national workforce when counting the agro-industry). While a limited number of producers have developed modern and highly productive agribusinesses that supply large supermarket chains, the sector is dominated by small-scale farmers (72 percent of rural families engage only in subsistence farming) and producers who have limited technical knowledge, market information, and financial resources. The sector is characterized by a high degree of informality, with low-quality jobs, low productivity, and wages that are only about one-fourth of the formal minimal wage. Around 58 percent of the rural population, including workers dependent on farm wages, live in poverty. The government has been facilitating the engagement of small-scale producer organizations in productive alliances that link them to domestic and international markets while promoting their financial inclusion and mobilizing private capital for development.<sup>6</sup> Honduras also made significant progress increasing social inclusion and, for the first time, has developed an approach to ensure disability inclusion.<sup>7</sup> Those experiences need to be scaled up and completed by actions aiming at attracting new local players to foster more integrated agrifood systems and increase value added, thus helping to transform rural areas. Increasing access to high-quality inputs, financing, infrastructure, logistics services, knowledge systems, food quality and safety verification, and climate change resilience assistance

will be essential. The sector would benefit from an institutionalized long-term vision and closer co-operation among public sector stakeholders and between the government and producers.

**Honduras's light manufacturing is largely built on the maquila model that shows a strong competitive advantage in several products.** The sector has been able to thrive despite the country's weak business environment, increasing global competition, high energy costs and wages, high export taxes, lack of skilled labor, and the limited local sourcing of raw materials. These, together with poor security and inadequate local transportation infrastructure and logistics services, slow down the expansion for export-oriented manufacturers and development of more complex products with greater value added. The factors providing investors with long-term financial security include the country's increased trade openness and the location of these firms in special economic zones (SEZs) with efficient access to the deepwater Port Cortes on the north coast, preferential tax treatment, and a relatively low minimum wage. Building on a strong base created by the knitwear industry focused on exporting to the US market, Honduras is repositioning itself to produce and export more diverse and complex products. This includes technical textiles, sustainable fibers, and automotive parts and components that compete in higher-value segments of the production chain, producing woven fabric and man-made fibers (such as polyesters, synthetics, and synthetic blends). To advance the development of light manufacturing, Honduran producers have the potential to leverage their established business relationships with large brands and retailers. In addition, closer collaboration in the auto parts

subsector between Honduran producers and their equivalents in other Central American countries could enable them to collectively engage in more sophisticated forms of production.

**One of the fastest-growing sectors in Honduras is business process outsourcing (BPO), which can create high-quality jobs while increasing domestic value added.** Honduras offers international companies an attractive setting to outsource their business processes, and the country has well-established call centers for customer service, sales and technical support, logistics and freight management capabilities, and other BPO services. Honduras is in the central time zones of the United States and Canada, with access to a young, low-cost, English-speaking labor force that can swiftly develop new technology skills. Increased corporate telecommuting as a result of the COVID-19 pandemic could intensify the demand for BPO services. To take full advantage of this opportunity, the Honduran BPO subsector will need to develop a wider range of higher-value functions and digital services, such as software development, information security, business analytics, and social media production and management. To achieve this, firms require a tech-savvy workforce to fill highly skilled jobs, and Honduran workers have little access to training in digital literacy. Moreover, the BPO industry requires a high-performance bandwidth, but currently, the quality of internet services in Honduras is poor by regional standards, which constrains the growth of BPO. The complex, inconsistent, and slow registration process for start-up BPO companies is an additional challenge. Finally, as in other sectors, corruption and crime increase operating costs and create a negative reputation for Honduras that discourages international investment in its BPO sector.

**Digital services have enormous potential to transform the economy by widening access**

**to finance, improving public sector governance, facilitating service delivery, and creating jobs.** With COVID-19 causing widespread shutdowns, school and business closures, and job losses, information and communication technologies (ICT) have become a critical lifeline for the country coping with social distancing and remote work. However, access to quality broadband in Honduras is low, unaffordable, and unequal. Connectivity is mostly limited to major cities, which hinders economic equity, rural development, and access to basic services such as health and education, especially for Indigenous Peoples and Afro-descendants living in remote rural communities. Moreover, limited digital services are available to citizens, and despite recent efforts, improvements need to be made to the existing e-government system.<sup>8</sup> The government has recently modernized its national identification (ID) system with state-of-the-art technology and has issued new ID cards to all of its adult population, though the modernization of the civil service registry is still pending. The government still needs to strengthen its core management systems (public financial management, procurement, public investment, and customs systems, among others) to fully develop authentication services for citizens and put in place an interoperability platform to share data across government systems to improve efficiency in service delivery.

**A key aspect of the provision of digital services is the need to expand access to digital financial services (DFS) to micro, small, and medium size enterprises (MSMEs) to spur growth and diversification.** The Honduran financial sector offers a variety of DFS solutions for MSMEs, including noncash merchant payments, advanced data analytics, underwriting process automatization, value-chain and supply-chain financing, and nonfinancial services (such as business management tools). Nevertheless, as of 2017, just 45 percent of the total adult population held an account



at a formal financial institution, which was lower than the regional average of 54 percent. Despite the importance of remittances in the Honduran economy, only 11 percent of Hondurans reported using formal financial accounts to receive their remittances. The smaller financial institutions that are often best placed to serve MSMEs typically lack sufficient financial and human capital to develop digital products. These savings and credit unions and cooperatives, smaller banks, and microfinance institutions have limited access to the crucial mobile infrastructure required to offer

e-wallets, credit and debit cards, and electronic payments through point-of-sale devices, ATMs, agent networks, or real-time transfers unless they partner with a large bank. Also, the financial regulatory framework in Honduras is not conducive to the creation of financial technology (fintech) firms and is among the most restrictive in Latin America. Because many MSMEs require a greater level of financial intermediation than bigger firms, DFS has the potential to offer them cost-effective solutions tailored to their unique circumstances.

## Appendix L: Disparities in Energy Access

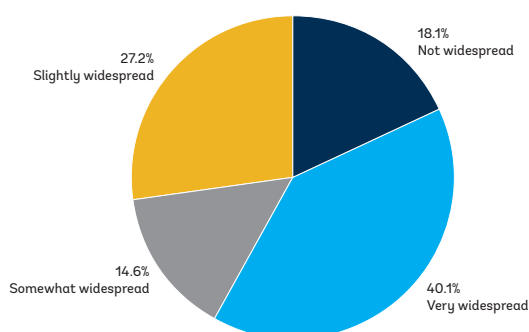
While the national electrification rate in Honduras was 9.9 percent in 2017, it masks the significant gaps in access between urban and rural areas. While most urban households (97.3 percent) in 2017 had electricity access through the national grid, only 69.3 percent had access to the grid in rural areas, and 22.5 percent of rural households had no access to any kind of electricity source. This improved in 2019, which showed 13 percent of rural households did not have access to electricity. In addition, electricity quality and reliability remain an issue, preventing both grid-connected households (about 50 percent) and households with off-grid electrification solutions from reaching full-access levels. In

terms of energy access for cooking, the majority of households in Honduras (55.6 percent) are concentrated in the lowest Tier 1 (no access), as a consequence of the high share of traditional or improved stoves that use biomass, and very limited access to modern liquefied petroleum gas or electric stoves. The significant use of inferior stoves in Honduras, especially in rural areas, exposes households to indoor air pollution and adverse health impacts. These significant disparities in energy access impair the social resilience and well-being of the poorest people and undermine prospects for more inclusive economic recovery and shared prosperity.<sup>9</sup>

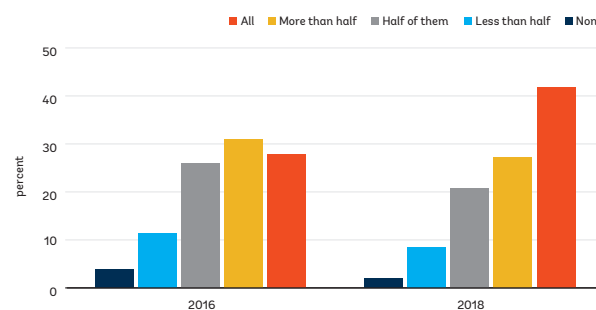
# Appendix M: Corruption Constraints on Business Development

**Figure M.1.** Perceptions of Corruption among Public Sector Officials and Politicians

**a.** Perception of corruption among public sector officials

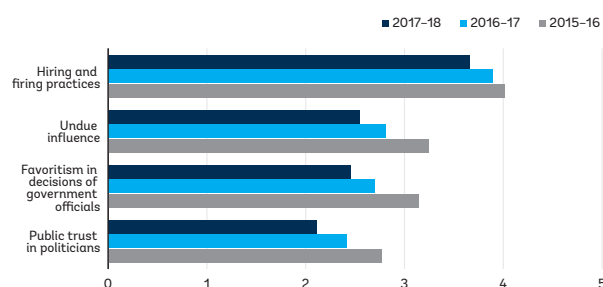


**b.** Perception of corruption among politicians



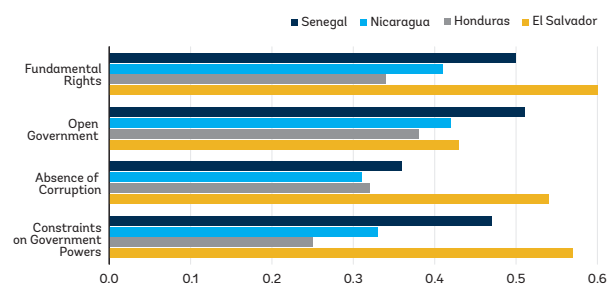
Source: Barómetro de las Américas por LAPOP, 2018

**Figure M.2.** Favoritism, Influence, and Trust



Source: World Economic Forum, Global Competitiveness Index.

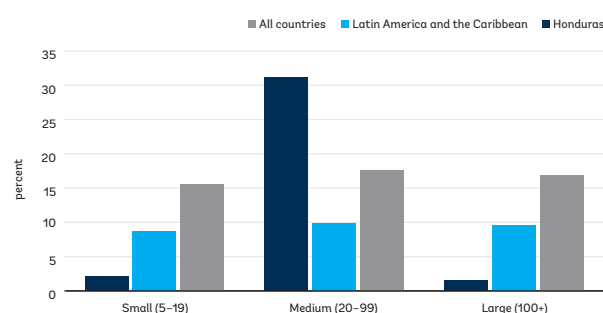
**Figure M.3.** Checks and Balances



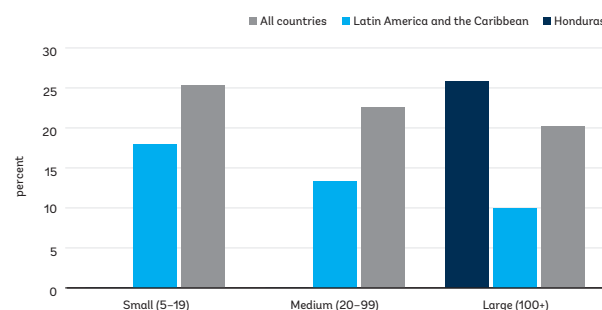
Source: World Justice Project Index (2020).

**Figure M.4. Corruption Constraints on Business Development**

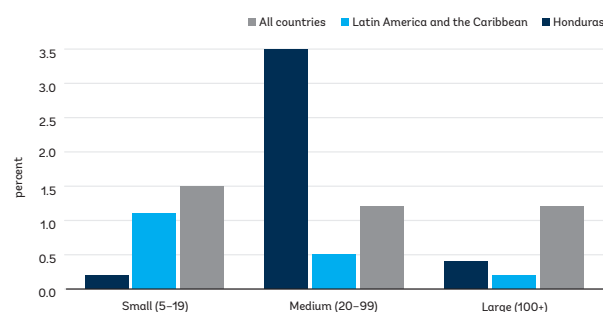
**a. Bribery Incidence**



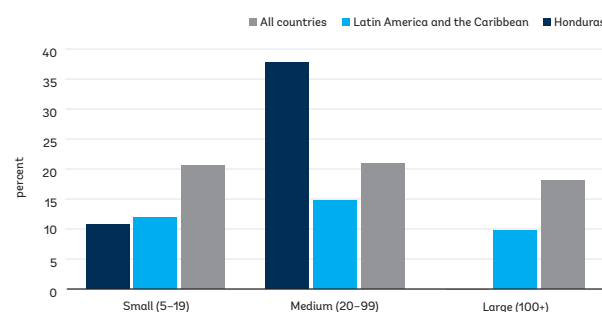
**b. Firms expected to give gifts to secure government contract**



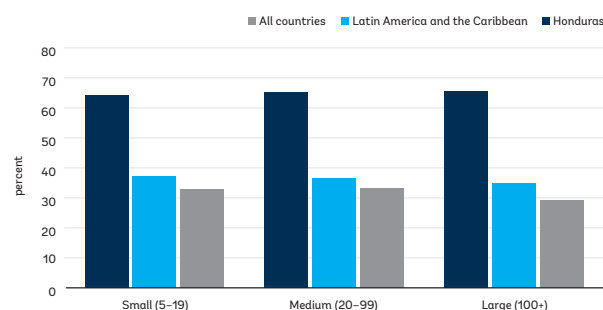
**c. Value of gift expected to secure government contract**  
% of contract value



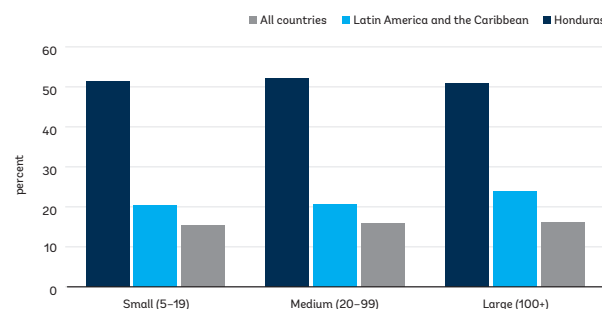
**d. Firms expected to give gifts to get a construction permit**



**e. Firms identifying corruption as a major constraint**



**f. Firms identifying the courts system as a major constraint**



Source: 2016 World Bank Enterprise Survey.

## Appendix N: Reducing the Fiscal Deficit and Maintaining Fiscal Sustainability

**Fiscal management:** In 2016, the government enacted the Fiscal Responsibility Law (FRL) to strengthen public finances, setting a 1 percentage point of gross domestic product (GDP) ceiling for the nonfinancial public sector (NFPS) deficit in 2019 and forward (deficit targets for the 2016–18 transition period were separately specified) and limiting the nominal growth of current spending to average GDP growth over the previous 10 years plus the projected inflation in the year ahead. The FRL formalized the medium-term fiscal framework (MTFF) as a critical part of the budget cycle and required a formal assessment by the Central Bank of Honduras (BCH) on the consistency of the MTFF with monetary and exchange rate policies. In addition, a new budget monitoring office, the Dirección General de Política Macro Fiscal (DGPMF), was created to scrutinize fiscal indicators.

**Tax policy:** The government has made revenue mobilization efforts over the last five years without having to change statutory tax rates. It incorporated a tax code in 2017 aimed at simplifying tax collection, broadened the tax base by streamlining exemptions, made customs reforms (including a new operating manual to enhance the collection of import duties in gasoline and bulk freight), introduced electronic notifications of suspicious activity to taxpayers, and upgraded to a modern system based on timely tax refunds. The tax reform included a 3-percentage point increase in the value added tax rate (from 12 to 15 percent), higher fuel taxes, the establishment of a minimum income tax to strengthen tax compliance, and the elimination of some exemptions helped to strengthen the revenue side. Congress also eliminated the “most privileged regime” concession to special economic zones.

**Tax administration.** The tax administration has modernized, based on a sound governance framework, the professionalization of the public service, and robust integrity assurance mechanisms. Significant progress was achieved on the registered taxpayer base, voluntary compliance, the filing and payment of declarations, and accurate reporting in tax declarations.<sup>10</sup> Further progress is needed on revenue management, accountability and transparency, risk management, the administrative review process, and dispute resolution to more fully conform to international good practices.

**Managing debt-related fiscal risk.** The country’s 2021 fiscal risk statement is well developed, comprehensive, and complies with the legislation except in the case of risks from natural disasters.<sup>11</sup> Further progress, however, is needed to manage the country’s exposure within a more comprehensive perspective (for example, management of global risks, fiscal rules implementation), as well as the contingent liabilities linked to public-private partnerships (PPPs), the debt portfolio of NFPS entities, loan guarantees, municipalities, state-owned enterprises (SOEs)—in particular the energy sector—as well as natural disasters.

**Public debt management:** The government made progress on debt transparency. The Medium-Term Debt Strategy and Financing Plans are updated annually. The authorities have nearly completed drafting the content of the Debt Law (LOP) in accordance with the recent Debt Management Performance Assessment.<sup>12</sup> Moreover, debt recording and payment processes are well defined and cover both the subnational level and SOEs. According to the Debt Reporting Heat Map

(2021), instrument, sectoral, and annual borrowing plan reporting remains partial. The government is working to further develop the domestic debt market, with longer maturities to be increasingly held by pension funds and other institutional investors and aiming to have a larger proportion of debt denominated in lempiras.

**Public financial management:** Progress in controlling public wage growth has been limited and is constrained by structural challenges, such as lack of a coherent legal framework for public employment, multiple special regimes, and a lack of a clear remuneration policy. Insufficient skills, poor information systems, and a lack of resources are compounding factors that provide room for fraud, leakages, and inefficient staffing, which adversely affect the ability to plan effectively and control expenditures. The statute of the Honduran civil service is not unified nor does it reach all institutions, so efforts are needed to implement a common salary policy, to streamline differences among regimes, improve the criteria for hiring staff, and consolidate the different contracting modalities that are currently being used. The government has taken some first steps in this direction. In 2019, it approved a salary adjustment for public employees in the civil service regime, and in June 2020, it established a centralized mechanism for negotiating salaries to guide decisions on nominal wage increases in line with the FRL. In addition, to improve the framework and decision-making for PPPs, the government created a new unit in the Treasury supported by an inter-institutional council to improve the management of PPPs, to assess the convenience of procuring PPPs rather than traditional public investments, and to conduct technical feasibility and cost-benefit studies. The government has also submitted to Congress a new public procurement law that will modernize and strengthen the compliance process, which will increase transparency as public procurement contracts only have legal validity once they are

published on the public purchases and contracting platform, Honducompras.

**Power sector:** Since the 2015 Systematic Country Diagnostic was done, the government has taken steps toward resolving Empresa Nacional de Energía Eléctrica (ENEE's) financial position, including reducing its nontechnical losses, introducing a rightsizing program that reduced the workforce by 60 percent, adjusting quarterly tariffs based on a cost-recovery formula, and creating a new post of Secretary of Energy to support the implementation of the electricity sector's reform. The government is continuing to take steps to implement the approved electricity sector law and to reassess generation contracts that have not yet come into effect. Its reform agenda is focusing on strengthening supervision of ENEE, reducing its losses, strengthening its governance and audits, and dividing up the company into three departments dealing with the generation, transmission, and distribution of electricity. Despite this, ENEE's financial situation represents a key fiscal vulnerability in Honduras. Government subsidies further compound the impact of the sector on public finance. The financial eases that were designed to face the crisis (for example, a \$600 million sovereign bond in June 2020) are merely bandages that will not cure the hemorrhage: an urgent implementation of the reform is needed.

**Monetary, exchange rate, and financial sector policies:** The government has taken steps toward modernizing its monetary policy framework with the aim of facilitating a transition toward inflation targeting. It has also adopted measures to make the financial system more resilient including a new securities market law, as well as introducing *international financial reporting standards* and enhancing forecasting capacities at the BCH. The new regulations for the interbank money market and foreign exchange market, approved in 2017, have contributed to bolstering the monetary transmission



mechanism and supporting the de-dollarization of the economy (the crawling-band exchange rate regime continued to anchor monetary policy and enabled a steady depreciation of the lempira). In response to the pandemic, the BCH has cut the

policy rate by 250 basis points from 5.50 percent in January 2020 to 3.00 percent in November 2020, suspended liquidity absorption operations, and reduced reserve requirements from 12 to 9 percent, among other measures.

**Table N.1. Main Macroeconomic Indicators and Projections in Honduras, 2015–23**

	2015	2016	2017	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth (%), at constant market prices	3.4	3.9	5.0	3.8	2.7	–9.0	4.7	4.4	3.8
Agriculture	2.6	4.8	10.3	2.6	–1.0	–6.3	2.0	3.7	3.1
Industry	4.2	3.7	4.5	4.1	1.8	–14.3	4.5	4.9	4.7
Services	3.3	3.7	3.8	4.1	4.1	–7.1	5.5	4.4	3.5
Share of GDP (%)									
Private Consumption	74.0	74.1	74.3	75.5	77.0	79.3	78.5	77.6	77.0
Government Consumption	13.4	13.4	13.0	12.6	12.5	14.2	14.3	13.7	13.0
Gross Fixed Capital Investment	22.1	19.7	20.9	21.6	20.0	16.7	18.6	19.8	20.1
Exports, Goods, and Services	57.3	55.7	55.7	54.4	54.2	47.4	50.7	51.9	52.6
Imports, Goods, and Services	68.6	65.0	66.5	66.9	63.6	57.0	61.8	62.7	62.4
Current Account Balance (% of GDP)	4.7	–2.6	–1.3	–6.6	–2.4	2.9	–3.2	–3.4	–3.6
Net Foreign Direct Investment (% of GDP)	4.6	4.2	4.5	3.7	2.0	1.5	2.2	2.6	2.8
Trade Balance (Billions of US\$)	–3394.1	–3062.2	–3528.3	–4900.2	–4609.1	–3689.4	–4485.0	–4382.0	–4372.2
Trade Balance (Percent of GDP)	–16.3	–14.2	–15.4	–20.5	–18.5	–15.6	–16.7	–16.3	–15.4
Fiscal Balance (% of GDP) <sup>a</sup>	–1.1	–0.5	–0.8	–0.9	–0.9	–5.5	–5.4	–2.2	–1.0
Debt (% of GDP) <sup>a</sup>	39.0	40.1	40.1	42.1	43.1	53.6	57.0	57.5	57.1
Primary Balance (% of GDP) <sup>a</sup>	0.1	0.3	0.1	0.0	–0.2	–4.2	–4.2	–0.9	0.5

Source: World Bank Staff estimations based on data from the Central Bank of Honduras and Ministry of Finance as of September 2021.

Note: e = estimate; f = forecast.

# Appendix O: Reforms in Infrastructure Services

## Water

**Honduras's efforts to increase resilience to climate change are highly dependent on sound management of water resources.** Balancing variability in the spatial and temporal availability of water resources, and managing the risks of scarcity, inundations, pollution, and the distribution of water among different users are key in adapting to the projected consequences of climate change. At a governance level, responsibility for water policy, financing, regulation, and monitoring is dispersed across various ministries and agencies, with no established central body to coordinate efforts. Although access to basic water and sanitation services has improved in the past decades, Honduras continues to face significant challenges in ensuring quality and reliability of services. Some policies and measures that could help overcome some of the constraints in the sector include

- Operationalize the National Water Authority and support institutional transformation from the national to the decentralized/basin levels to provide the enabling framework for water security.
- Design a national program to increase water supply and sanitation coverage in rural areas.
- Update the National Water Supply Quality Program to provide an integrated approach to stimulate and improve water quality throughout municipalities, with a joint effort between the Drinking Water Supply and Sanitation National Council (CONASA), National Regulator (ERSAPS), and the Ministry of Health.

Looking ahead, bolder—and possibly longer-term—measures in the water sector would include

- Scale-up integrated water security programs (water infrastructure and governance), increasing and optimizing multipurpose water storage in key basins and aquifers based on their socioeconomic relevance and degree of water insecurity.
- Strengthen water resources management at the national and basin levels, particularly linked to information management systems, planning, and decision-making under deep uncertainty; improve groundwater management and strengthen water basin-level institutions.
- Broaden programs aimed at enhancing the quality and efficiency of water supply and sanitation services delivered by decentralized and ring-fenced Urban Water and Sanitation Providers as contemplated in the Drinking Water and Sanitation Sector Framework Law.
- Strengthen national institutions to provide adequate regulation, policy, and technical assistance functions, especially by consolidating the water utility SANAA (Servicio Autonomo Nacional de Acueductos y Alcantarillados) as a technical entity of CONASA to serve as a water supply and sanitation sector coordinator at the central level.
- Design and implement a comprehensive national sanitation plan to increase sewerage coverage and wastewater treatment capacity.

## Digital

**Honduras needs to improve access and quality of broadband services and strengthen digital government services.** The country's low broadband penetration derives from several factors, including lack of backbone infrastructure, weak regulatory environment and competition,

and high prices for services and broadband-enabled devices. Digital is an essential piece of the country's competitiveness and inclusion. There is a need to improve industrial, residential, and international telecommunication infrastructure, including digital solutions, to connect and protect producers, consumers, and markets. Policy actions that could help Honduras overcome these constraints include

- Increase access to quality broadband service by promoting competition and extending broadband infrastructure to rural areas, through (1) active and passive infrastructure sharing; (2) simplification of the licensing regime; (3) more efficient use of the universal service fund; and (4) establishment of quality obligations for broadband operators (coverage, internet speed). In addition, the government could develop projects aimed at connecting publicly funded entities to be used to provide broadband coverage to unserved and remote communities.
- Enable government to provide digital services, by the development of (1) an interoperability framework and platform through which public agencies can exchange data securely; (2) a secure one-stop-shop with an authentication

method to enable the public to access government services with a high level of assurance, and (3) robust core government systems to ensure efficient, cost-effective, and transparent public financial management, public procurement, public investment, and human resources management to support service delivery.

- Manage the risk of cybersecurity by enacting a law on data protection or a cybersecurity law and increase capacity to respond to cyberattacks.<sup>13</sup>
- Increase access and uptake of digital financial services to improve financial inclusion for households and access to finance for MSMEs. Regulations for e-money were published in 2016, but the fintech sector remains underdeveloped. Solutions tested in more advanced countries of the Latin American and Caribbean region, such as the establishment of marketplace lenders, need to be tested.
- Further nurture innovation through incentives to expand incubators in line with the initiatives in San Pedro Sula, expand usage to boost productivity in key sectors such as agriculture and the public administration, and invest in human capital and promotion of technology transfer.

## Appendix P: Additional Measures Needed: Competitiveness and Job Creation, Inclusion, and Resilience

**For stronger, more resilient, and more inclusive growth, the country needs to strengthen competitiveness, promote job creation, and build domestic savings and investment.** The most attractive opportunities to increase export competitiveness involve products in which Honduras already has a comparative advantage and a sizeable market share, but exploiting the full potential of existing exports will require strategic repositioning within current and new value chains, transformation and modernization of the domestic market through product diversification and sophistication, improvement of the regulatory framework and business environment, and strengthened linkages between export- and foreign domestic Investment (FDI)-oriented sectors and the rest of the economy. In addition, Honduras could ‘cash in’ the demographic dividend if it can create enough good quality, formal jobs for the emerging workforce, and improve the quality and market relevance of education programs. Promoting jobs creation in labor-intensive sectors (for example, agriculture, construction), especially those with the potential for transformation to boost external competitiveness (such as agribusiness, manufacturing, business processing outsourcing [BPO], and information and communication technologies [ICT]) and those concentrated in rural areas would help break the cycles of poverty. Finally, increasing domestic private and public savings and investment through further development of the domestic financial market would help reduce Honduras’s dependency on external factors of growth, improve economic resilience to external and domestic shocks, make households and firms more secure and climate-resilient, and strengthen long-term economic growth. Some

of the policy actions that could help Honduras achieve this include:

- *Diversification.* Diversify toward a more wide-ranging productive structure to expand employment and boost productivity to enable Honduras to reduce its reliance on a narrow range of sectors and export destinations—thereby limiting its exposure to external shocks and commodity cycles.
- *Technical Capacity.* Upgrade production, processing, and handling standards to meet international safety and quality standards. Upgrading the quality of existing exports while also developing new products and services could boost productivity and support an export-oriented growth strategy. Moreover, scaling up access to technology (for example, internet, digital services, etc.) could boost the performance of the service subsectors intensive in the use of low-skilled labor.
- *Vertical Value Chains.* Support the development of vertical value chains and vertical integration to increase competitiveness and create a more conducive business environment with investment policies that enable the formation of backward linkages and foster the growth of domestic micro, small, and medium size enterprises (MSMEs). Promote the forward and backward linkages; a more robust, vertically integrated value chain within Honduras could strengthen linkages with MSMEs and expand the economic impact of the sector beyond export-oriented firms.
- *Linkages between Free Trade Zones (FTZs) and non-FTZs.* Facilitate private investment beyond the current FDI-oriented sectors.

Accelerate harmonization of national legislation with regional regulations, to facilitate the interaction between FTZs and nonFTZs and knowledge and productivity spillovers. Adopt select FTZ's regulations and successful practices in the domestic market.

- *Regional Integration.* Promote greater integration into global value chains (GVCs) to better capitalize on proximity to the US market through harmonized customs administration within the Northern Triangle (Guatemala, Honduras, and El Salvador). This could also support Honduran firms to diversify production and adopt new technology.
- *Demographic Dividend.* Promote jobs creation in labor-intensive sectors, especially in rural areas, to break the cycles of poverty.
- *Domestic Financial Market.* Continue developing domestic financial market to (1)

improve access to appropriate financial and insurance instruments for MSMEs and households, including through digital means; (2) incentivize domestic saving and investment; and (3) promote the use of remittances inflows into capital investment. This could also include supporting climate risk management and climate financing for banks, insurance companies, and other financial institutions; promoting fintech to boost technological innovation; strengthening rural savings funds; and incentivizing private sector insurance to foster productivity growth. Expanded and inclusive access to financial services could lower costs and facilitate the growth of smaller firms in supply chains and clusters.

## Appendix Q: Data and Knowledge in Honduras 2015–21 and Planned 2022

**Table Q.1.** Studies, 2015–21 and Planned

Independent Evaluation Group (IEG)	Honduras Case Study— Early Evaluation of the World Bank’s COVID-19 Response, 2021
Macro	Honduras Economic DNA: maintaining commitment with a special focus on poverty and shared prosperity, 2015 World Bank Group. 2015. Honduras Economic DNA: Maintaining Commitment—With a Special Focus on Poverty and Shared Prosperity. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/22028">https://openknowledge.worldbank.org/handle/10986/22028</a> .
	Expenditures on Public Sector Wage Bill —Reform Options, 2018 [CONFIDENTIAL Internal WB document]
	Background Paper: Expenditures on Public Sector Wage Bill in Education (2018), [CONFIDENTIAL Internal WB document]
	Background Paper: Civil Service in Honduras (2018), [CONFIDENTIAL Internal WB document]
	Honduras: Joint Bank-IMF Debt Sustainability Analysis, 2021: <a href="https://www.imf.org/en/Publications/CR/Issues/2021/09/14/Honduras-Fourth-Reviews-Under-the-Stand-by-Arrangement-and-the-Arrangement-Under-the-465812">https://www.imf.org/en/Publications/CR/Issues/2021/09/14/Honduras-Fourth-Reviews-Under-the-Stand-by-Arrangement-and-the-Arrangement-Under-the-465812</a>
	<i>Debt Management Performance Assessment (DeMPA)</i> , 2022 (forthcoming)
	Assessment of Debt-Related Fiscal Risks in Honduras, 2021 [CONFIDENTIAL Internal WB document]
	The Impact of COVID-19 on Formal Firms in Honduras: Evidence from Monthly Tax Returns, 2021 Bachas, Pierre, Anne Brockmeyer, and Camille Semelet. 2021. The Impact of COVID-19 on Formal Firms in Honduras: Evidence from Monthly Tax Returns. MTI Practice Notes. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/35093">https://openknowledge.worldbank.org/handle/10986/35093</a> .
Poverty	Honduras: Poverty Diagnostic, 2001 “World Bank. 2001. Honduras: Poverty Diagnostic 2000. Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/15508">https://openknowledge.worldbank.org/handle/10986/15508</a> .
	<i>Honduras Poverty Assessment</i> , 2022 (forthcoming)
Energy	Technical and Economic Analysis of Maximum Penetration of Wind and Solar Energy in the Electric System of Honduras, 2016 World Bank. 2019. Análisis Técnico y Económico de Máxima Penetración de Energía Eólica y Solar en la Red Eléctrica de Honduras. Washington, DC: World Bank Group. <a href="https://imagebank2.worldbank.org/search/30894509">https://imagebank2.worldbank.org/search/30894509</a>
	CONFIDENTIAL: Assessment of the Governance, Fiscal Costs and Risks of the Electricity SOE in Honduras, ENEE, 2019 (pending QER)
	Assessment on Energy Efficiency Potential and Demand-Side Management Opportunities in Honduras, 2019 World Bank. 2021. Evaluación de Oportunidades de Mejora de la Eficiencia Energética y la Gestión de la Demanda en Honduras. Washington, DC: World Bank Group. <a href="https://imagebank2.worldbank.org/search/33282671">https://imagebank2.worldbank.org/search/33282671</a>



Independent Evaluation Group (IEG)	Honduras Case Study— Early Evaluation of the World Bank's COVID-19 Response, 2021
Infrastructure	<i>Honduras Transport Infrastructure Sector Assessment 2.0</i> (forthcoming, 2022)
Agriculture	Enabling the Business of Agriculture Report, 2019. <a href="https://eba.worldbank.org/en/reports">https://eba.worldbank.org/en/reports</a>
Social Protection and Jobs	Central America Social Expenditures and Institutional Review: Honduras, 2015 World Bank. 2015. Central America Social Expenditures and Institutional Review: Honduras. Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/22672">https://openknowledge.worldbank.org/handle/10986/22672</a>
	Study financed by the Inter-American Development Bank (IDB): Impact Evaluation of the Cash Transfer Program “Bono Vida Mejor,” 2017 <a href="https://sgpr.gob.hn/Content/Uploads/Evaluaciones/636663868289323218-Producto%2015%20versio%CC%81n%20definitiva.docx.pdf">https://sgpr.gob.hn/Content/Uploads/Evaluaciones/636663868289323218-Producto%2015%20versio%CC%81n%20definitiva.docx.pdf</a>
	Remittances and Labor Supply in the Northern Triangle, 2018 Sousa, Liliana D., and Andres Garcia-Suaza. 2018. Remittances and Labor Supply in the Northern Triangle. Policy Research Working Paper No. 8597. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/30446">https://openknowledge.worldbank.org/handle/10986/30446</a>
	Toward Equal? Women in Central America, 2018 World Bank Group. 2018. Towards Equal? Women in Central America. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/30398">https://openknowledge.worldbank.org/handle/10986/30398</a>
	Human Capital Outflows: Selection into Migration from the Northern Triangle, 2018 Del Carmen, Giselle, and Liliana D. Sousa. 2018. Human Capital Outflows: Selection into Migration from the Northern Triangle. Policy Research Working Paper No. 8334. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/29368">https://openknowledge.worldbank.org/handle/10986/29368</a>
	Toward More Efficient and Effective Public Social Spending in Central America, 2018 Acosta, Pablo A., Rita Almeida, Thomas Gindling, and Christine Lao Pena. 2017. Toward More Efficient and Effective Public Social Spending in Central America. Directions in Development—Human Development. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/26659">https://openknowledge.worldbank.org/handle/10986/26659</a>
	Honduras Jobs Diagnostic, 2019 Michel, Veronica, and Ian Walker. 2020. Honduras Jobs Diagnostic. Job Series No. 17. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/33304">https://openknowledge.worldbank.org/handle/10986/33304</a>
	She Helps Me All the Time: Underestimating Women’s Economic Engagement in Rural Honduras, 2020 Muller, Miriam, and Liliana D. Sousa. 2020. ‘She Helps Me All the Time’: Underestimating Women’s Economic Engagement in Rural Honduras. Policy Research Working Paper No. 9217. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/33638">https://openknowledge.worldbank.org/handle/10986/33638</a>

Independent Evaluation Group (IEG)	Honduras Case Study— Early Evaluation of the World Bank's COVID-19 Response, 2021
Water Supply and Sanitation (WSS)	Strategy and Action Program for WSS in Small Towns in Honduras <a href="https://documents1.worldbank.org/curated/pt/883341496228017268/pdf/ACS10444-WP-P132283-PUBLIC-Post-DM-DS-MA-AR-GP-20160616-CLEAN.pdf">https://documents1.worldbank.org/curated/pt/883341496228017268/pdf/ACS10444-WP-P132283-PUBLIC-Post-DM-DS-MA-AR-GP-20160616-CLEAN.pdf</a>
	Monitoring of Country Progress in Drinking Water and Sanitation, MAPAS (Spanish) <a href="https://www.wsp.org/sites/wsp/files/publications/WSP-MAPAS-Honduras.pdf">https://www.wsp.org/sites/wsp/files/publications/WSP-MAPAS-Honduras.pdf</a>
	Monitoring of Country Progress in Drinking Water and Sanitation, MAPAS II (Spanish)
	Public Expenditure Review Decentralization of Water and Sanitation Services <a href="https://www.wsp.org/sites/wsp/files/publications/PER-Honduras-Decentralization-Water-Sanitation-Services.pdf">https://www.wsp.org/sites/wsp/files/publications/PER-Honduras-Decentralization-Water-Sanitation-Services.pdf</a>
	Improving Access to Finance of the Tegucigalpa Municipality Water Utility, Overview <a href="https://ppiaf.org/activity/honduras-improving-access-finance-tegucigalpa-municipality-water-utility-0">https://ppiaf.org/activity/honduras-improving-access-finance-tegucigalpa-municipality-water-utility-0</a>
	Diagnostic of the WSS context in Tegucigalpa (Spanish)
	Municipal WSS Unit 10-year Business Plan (Spanish)
	National Water and Sanitation Plan, PLANASA (Spanish) Link: <a href="http://conasa.hn/wp-content/uploads/2017/07/PLANASA_AMPLIADO_IMPRENTA.pdf">http://conasa.hn/wp-content/uploads/2017/07/PLANASA_AMPLIADO_IMPRENTA.pdf</a>
	Water and Sanitation Financial Policy (Spanish)
	Water Security Strategy in the Dry Corridor (Spanish)
	Honduras— Modernizing the Water and Sanitation Sector Builds Resilience, 2019 <a href="https://documents1.worldbank.org/curated/en/465661553067283591/pdf/135433-BRI-P118090-19-3-2019-12-40-25-WeBook.pdf">https://documents1.worldbank.org/curated/en/465661553067283591/pdf/135433-BRI-P118090-19-3-2019-12-40-25-WeBook.pdf</a>
Public-Private Partnerships (PPPs)	Improving Transparency and Accountability in Public-Private Partnerships— Disclosure Diagnostic Report: Honduras, 2018 World Bank. 2018. Improving Transparency and Accountability in Public-Private Partnerships: Disclosure Diagnostic Report—Honduras. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/29786">https://openknowledge.worldbank.org/handle/10986/29786</a>
Education	Predicting School Dropout with Administrative Data: New Evidence from Guatemala and Honduras, 2017 <a href="https://openknowledge.worldbank.org/handle/10986/30146">https://openknowledge.worldbank.org/handle/10986/30146</a>
	Education Sector Plan, 2018. <a href="https://cne.presidencia.gob.hn/sites/default/files/PESE_2018_2030_OFICIAL_VERSION_COMPLETA.pdf">https://cne.presidencia.gob.hn/sites/default/files/PESE_2018_2030_OFICIAL_VERSION_COMPLETA.pdf</a>
Governance	Open Data Readiness Assessment, 2017 <a href="http://opendatatoolkit.worldbank.org/docs/odra/odra_honduras-es.pdf">http://opendatatoolkit.worldbank.org/docs/odra/odra_honduras-es.pdf</a>
Financial Management	Co-financed with United States Agency for International Development: Public Expenditure and Financial Accountability (PEFA) Assessment
Disaster Risk Management—Hydromet	Strengthening Hydromet Services, Disaster Preparedness and Urban Resilience in Honduras (Honduras Hydromet Modernization Plan), 2020 <a href="https://www.preventionweb.net/publication/strengthening-hydromet-services-disaster-preparedness-and-urban-resilience-honduras">https://www.preventionweb.net/publication/strengthening-hydromet-services-disaster-preparedness-and-urban-resilience-honduras</a>

Independent Evaluation Group (IEG)	Honduras Case Study— Early Evaluation of the World Bank's COVID-19 Response, 2021
Commerce/ Business	Doing Business Report, 2020 (global report, with analysis on Honduras) <a href="https://www.doingbusiness.org/content/dam/doingBusiness/country/h/honduras/HND.pdf">https://www.doingbusiness.org/content/dam/doingBusiness/country/h/honduras/HND.pdf</a>
	<i>Country Private Sector Diagnostic: Creating New Markets in Honduras</i> (2021, forthcoming)
Extractives	Building Regulatory Capacity for Improved Governance of Extractive Industries, 2016
Climate Change	<i>Honduras Country Climate and Development Report</i> (2022, forthcoming)
Citizen Security/ Prevention/ Fragility, Conflict & Violence (FCV)	Crime, Violence, and Community-Based Prevention in Honduras, 2015 Berg, Louis-Alexandre, and Marlon Carranza. 2015. Crime, Violence, and Community-Based Prevention in Honduras. Justice, Security, and Development Series. World Bank, Washington, DC. <a href="https://openknowledge.worldbank.org/handle/10986/22378">https://openknowledge.worldbank.org/handle/10986/22378</a>
	CONFIDENTIAL: <i>Honduras Risk and Resilience Assessment</i> (2022, forthcoming)

Note: Titles in italics are forthcoming.

## Notes

1. For more information, see <https://www.worldbank.org/en/publication/human-capital/brief/the-human-capital-project-frequently-asked-questions#5>
2. The *Global Climate Risk Index 2021* can be found at [https://reliefweb.int/sites/reliefweb.int/files/resources/Global%20Climate%20Risk%20Index%202021\\_1\\_0.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/Global%20Climate%20Risk%20Index%202021_1_0.pdf).
3. Collaborators include the Inter-American Development Bank; World Bank; Central American Bank for Economic Integration; Economic Commission for Latin America and the Caribbean; Institute of Nutrition of Central America and Panama; World Health Organization; Foro Social de la Deuda externa y Desarrollo de Honduras (FOSDEH); representatives of civil society and academia.
4. For more details on the new official poverty measurement methodology, see <https://www.ine.gob.hn/V3/pobrezamonetaria/>.
5. These numbers differ slightly from those published by the Instituto Nacional de Estadística (INE) in January 2020. The Technical Poverty Commission met in March 2021 to review some issues with the underlying microdata and accepted the revisions. This was not a change to the poverty measurement methodology itself, but rather a correction of the microdata.
6. Through COMRURAL.
7. Through the Corredor Seco Food Security Project (PROSASUR).
8. Despite the government's efforts, Honduras still ranked 138th out of 193 countries in the UN's 2020 e-Government Survey with a score of 0.45 (not significantly different from 0.41, its score in 2014). This was below the regional average of 0.63 and the Central American average of 0.58.
9. "Beyond Connections: Energy Access Diagnostic Report Based on Multi-Tier Framework," World Bank, June 2019. Also see ESMAP/World Bank Group, <https://microdata.worldbank.org/index.php/catalog/3753>.
10. From the tax administration diagnostics assessment tool (TADAT), the International Monetary Fund, and the World Bank Group, 2020.
11. WBG staff assessment based on data from the Ministry of Finance.
12. WBG staff assessment based on data provided by the Ministry of Finance in Honduras on reforms in debt management and related areas, using revised DeMPA methodology (<https://www.worldbank.org/en/programs/debt-toolkit/dempa>).
13. Honduras is only of only two countries in the Latin America and the Caribbean Region that does not have a law on cyber-criminality. The other country is El Salvador.

