

**JOBS
SERIES**

Issue No. 17

JOBS

**DIAGNOSTIC
HONDURAS**

Veronica Michel and Ian Walker



WORLD BANK GROUP

Jobs



DIAGNOSTIC HONDURAS

Veronica Michel and Ian Walker

© 2019 International Bank for Reconstruction and Development / The World Bank.

1818 H Street NW, Washington, DC 20433, USA.
Telephone: 202-473-1000; Internet: www.worldbank.org.

Some rights reserved

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions



This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO) <http://creativecommons.org/licenses/by/3.0/igo>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution—Please cite the work as follows: Veronica Michel and Ian Walker. 2019. “Honduras Jobs Diagnostic.” World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO.

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution:
*This translation was not created by The World Bank and should not be considered an official World Bank translation.
The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution:
This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.

Images. Further permission required for reuse.

Page 12, Improved roads infrastructure has increased the potential for job creation in many regions of Honduras, INVEST-Honduras.

Page 16, Maquila sector workers in northern Honduras, War on Want.

Page 34, Potato cooperative, World Bank.

Page 46, COMRURAL project training session in the Copan region, World Bank.

Page 60, Garifuna women with cocoa derivate food products, northern Honduras, World Bank.

Page 64, Honey cooperative near Corquin, World Bank.

ACKNOWLEDGMENTS

This report was authored by Ian Walker (Lead Economist, Jobs Group) and Veronica Michel (Analyst, Jobs Group). The authors wish to acknowledge extensive inputs from collaborators, specifically: Junko Onishi (Senior Specialist, SPJ) for the analysis of labor supply challenges and the TVET system; Supriyo De (Senior Economist, Jobs Group) for inputs to the macroeconomic analysis in Section 1; Reyes Aterido (Economist, Jobs Group) and Adrian Scutaru (Consultant, Jobs Group) for firm-level data exploratory work; and Michael Weber (Senior Economist, Jobs Group) for the standardized labor force data analysis in Section 2.

Special thanks go to all the Honduran Government offices and other Honduran institutions who collaborated with us in data collection and analysis or who shared information for the analysis, especially: the Central Bank of Honduras (Aracely O'Hara, Marvin Martinez, and Celin Hernandez); Carlos Madero (Minister of Labor); Candido Ordonez (Observatorio del Trabajo); Miriam Guzman (Minister of the Secretaria de Administración de Rentas, SAR); Roberto Cardona (Executive Director of INFOP); the Instituto Nacional de Estadísticas; CADERH; COMRURAL; and COHEP. Our thanks also go to many others who provided valuable inputs, who are too numerous to be listed here.

Thanks also to our peer reviewers: Ewa Korczyk (Economist, GMTLC), Ramon Moncada (Agricultural Specialist, GFA04), and Mia Rodriguez (Associate Investment Officer, CLAPA); and to Kathleen Beegle (Gender Group) and John Wingle (Millennium Challenge Corporation) for helpful comments on earlier drafts. The authors also wish to acknowledge support received from Liliana Do Couto Sousa (Economist, Poverty) and Pablo Gottret (Practice Manager, SP LAC). However, as always, the responsibility for any remaining errors of commission or omission, or in the criteria expressed in the report, remains with the authors.

Regional Vice President: Axel van Trotsenburg

Country Director: Yaye Seynabou Sakho

Senior Global Practice Director: Michal J. Rutkowski

Practice Manager: Pablo Gottret

Task Team Leaders: Junko Onishi, David Ian Walker, Miriam Matilde Montenegro Lazo

ABBREVIATIONS

EBANADESA.....	Banco Nacional de Desarrollo Agrícola
BPO/ITO.....	Business Process and Information Technology Services
CADERH.....	Centro de Asesor Para el Desarrollo de los Recursos Humanos
CAFEDH.....	Family Education Centers for the Development of Honduras
CEPAL.....	Comisión Económica para América Latina y el Caribe
COMRURAL.....	World Bank Rural Competitiveness Project
COPRISAO.....	Presidential Commission for Integral Reform of Customs System and Trade Operators
DBI.....	World Bank's Doing Business Indicators
ECARAI.....	Empresa Cooperativa Agraria de Intibuca
EPHPM.....	Multi-Purpose Permanent Household Survey
FONAPROVI.....	Fondo Nacional de Producción y Vivienda
FTA.....	free-trade agreement
GOH.....	Government of Honduras
ILO.....	International Labour Organisation
IMF.....	International Monetary Fund
INFOP.....	Instituto Nacional de Formación Profesional
LAC.....	Latin America and the Caribbean
LFP.....	labor force participation rate
LIC.....	low-income country
LMIC.....	lower middle-Income country
MW.....	minimum wage
NA.....	National Accounts
NEETs.....	People not in employment, education, or training.
NINI.....	working-age people neither working nor studying
PPP.....	public-private partnership
PPP.....	purchasing power parity
PROCINCO.....	Programa de Capacitación Integral para la Competividad
SCD.....	Strategic Country Diagnostic
SEDLAC.....	Socio-economic Database for Latin America and the Caribbean
SENAEH.....	Honduran National Employment Service
SENAEH.....	National Employment Service
SME.....	small and medium enterprises
TPS.....	Temporary Protected Status
TVET.....	Technical and Vocational Education and Training
UN.....	United Nations
VAT.....	value-added tax
WAP.....	working age population
WDI.....	World Development Indicators



CONTENTS

ABBREVIATIONS	ii
EXECUTIVE SUMMARY	1
INTRODUCTION: WHY HONDURAS NEEDS MORE AND BETTER JOBS	13
1. JOBS, GROWTH, AND POVERTY	17
2. LABOR SUPPLY CHALLENGES	35
3. PRIVATE SECTOR JOBS GROWTH AND THE DEMAND FOR LABOR	47
4. POLICY RECOMMENDATIONS TO IMPROVE JOBS OUTCOMES IN HONDURAS	61
REFERENCES	65
ANNEX A: JOBS DIAGNOSTICS METHODOLOGY	67
ANNEX B: STATISTICAL ANNEX	69



EXECUTIVE SUMMARY

Improving jobs outcomes—especially for poor people—is at the center of Honduras’ development agenda. This report shows how jobs are related to persistently high poverty and disappointing growth over the last 20 years and suggests ways to reduce poverty and encourage growth in the future. It is organized in three main sections. The first section, **Jobs, growth and poverty**, provides an overview of how growth and poverty trends relate to Honduran jobs. The second section focuses on **Labor supply challenges**, including the growth and quality of labor supply; it analyses demographics, labor force participation rates, education, and training. The third section turns to **Private sector growth** analyzing factors influencing labor demand in the private sector, discussing the investment climate; distribution of job types (formal and informal) across firms, sectors, and households; and public programs to create better jobs for poor people. The report concludes with a section summarizing **Policy recommendations to improve jobs outcomes in Honduras**.

JOBS, GROWTH, AND POVERTY

Honduras exhibits a persistent syndrome of slow growth, high poverty, and poor-quality jobs. Multiple elements of instability have undermined growth. Some—such as natural disasters (Hurricane Mitch, El Niño and the exposure of the economy to global shocks such as the 2008 financial crisis)—are exogenous. But others—such as rising political instability (most notably from 2008 onwards), associated governance challenges, and questionable public policy choices—are home-grown. Honduras’ per-capita GDP remains among the lowest in Central America, only slightly above Nicaragua. Between 2000 and 2015, the annualized growth rate of per-capita value added was only 1.8 percent—half that of the Dominican Republic, and two-thirds that of Nicaragua, Costa Rica, and Ecuador. Poverty indicators are similarly disappointing. Using the World Bank’s standardized extreme poverty threshold (\$1.90 per day in PPP dollars), Honduras’ extreme poverty rate halved between 1996 to 2008, falling from 30 percent to around 15 percent. But it has flat-lined since, remaining slightly above 15 percent. In contrast, no other country in the region today has an extreme poverty rate above five percent. Honduras also reports persistently high inequality. In the twenty-year interval between 1996 and 2016, the income share of the bottom 40 percent crept up from about 10 percent to 11 percent. In contrast, El Salvador reported an increase from 11 percent to 16 percent; and Nicaragua, Ecuador and the Dominican Republic all rose from around 11 percent to around 14 percent. No other country in the region today has an income share for the bottom 40 percent that is below 13 percent.

Steady urbanization of the Honduran population and workforce over the last 20 years has been associated with the emergence of better urban job opportunities—especially in services and industry—but there is ample scope to accelerate that trend. The urban share of the population remains below that of neighboring countries, but it has reached 55 percent and is growing steadily. The structure of urban jobs is very different to rural jobs, with 62 percent being wage jobs, compared to 42 percent in rural areas; and more urban jobs are in services (67 percent of total) and industry (27 percent), compared with the rural economy (32 and 16 percent, respectively). This suggests that urbanization will offer continuing opportunities for Honduras to generate better jobs. However, a challenge will be to shift the growth of urban services jobs more strongly towards better quality jobs in formal services, especially for women.

Linked to urbanization, the Honduran economy has moved steadily from subsistence agriculture, with most jobs now paying wages in the services and industry sectors. But there is persistently high informality across all sectors—agriculture, industry and services—and in both urban and rural settings. Informality

is not limited to jobs in self-employment and household enterprises—41 percent of wage jobs are also informal. Informal jobs tend to be lower-productivity jobs due to the absence of scale economies and the difficulties small, informal enterprises face in accessing capital. This in turn undermines earnings and job quality. So informal workers tend to be poor or extremely poor. Low-productivity growth also undermines GDP growth. The Jobs Diagnostics report untangles how labor supply and demand effects contribute to this set of outcomes.

The Jobs Diagnostic report presents a “growth accounting” exercise, to show how the growth of the workforce and productivity interact to produce sluggish aggregate growth in recent years. This analysis underlines the central message of the report: faster productivity growth is needed in Honduras, especially for low-income workers, if job quality is to improve and poverty reduction is to accelerate. Between 2002–16, annual per capita GDP growth averaged just 1.4 percent. Fully 85 percent of that can be explained by demographic change (70 percent) and increasing labor force participation rate (15 percent), which between them caused a steady rise in the share of the population that was working. In contrast, labor productivity grew at only 0.25 percent per year on average, contributing just 17 percent of total growth. There was also a slight fall in the employment rate, contributing a two percent reduction to total growth. In Central America, only El Salvador had a worse growth rate, and no other country was so heavily dependent as Honduras on demographic change for its economic growth.

The sectoral distribution of Honduran jobs showed important changes over the last 15 years. Most notably, the share of jobs in agriculture fell from 36 percent in 2002 to 26 percent in 2016, while the share of industrial jobs was steady at 22 percent, and the share of jobs in services rose from 41 percent to 52 percent of all jobs. Despite a big relative reduction in its share of jobs, agriculture maintained its share of GDP at 13 percent, while industry’s share of output fell from 29 percent to 25 percent, and services’ share of output rose from 58 percent to 62 percent. These data are consistent with a significant rise in average job productivity in agriculture, partly due to shifting patterns of cultivation (e.g. towards horticulture and other cash crops), but also because much of the labor that moved out of the sector was previously producing very little (reflecting high underemployment in agriculture). In contrast, average labor productivity declined in both industry and services in this period.

The two main sources of Honduran productivity growth between 2002 and 2016 were improving productivity in agriculture and transfer of jobs from agriculture to higher-productivity services. Labor productivity grew at 0.25 percent, and agricultural labor productivity growth accounted for 0.35 percent per year of total growth on average. But this was offset by declining productivity growth in industry (-0.24 percent per year) and services (-0.50 percent per year). We must distinguish between “within sector” and “between sector” productivity. Summing across sectors, “within sector” productivity changes contributed a negative 0.39 percent per year to Honduran productivity growth in this period, but this was offset by the positive effect of the flow of labor from agriculture into services. This “between sectors” effect contributed 0.64 percent per year to overall productivity growth. This reflects the fact that, although productivity in services declined, average productivity level of services remained well above that of the replaced agriculture jobs. However, the steady decline in services productivity (driven mainly by construction and commerce) indicates that most labor flowing into services gravitated to the lower quality, informal part of the sector. If not corrected, the resulting decline in the sector’s average productivity will eventually sap the future potential for productivity growth and poverty reduction in Honduras. This highlights the need to speed the growth of more productive jobs across all sectors of the Honduran economy.

Analysis of the distribution of the population across types of economic activity underlines how far there is to go to improve the quality of the jobs most Hondurans do. In the first place, economic inactivity is a big challenge. In 2016, the working age population (WAP) constituted 62 percent of the population of Honduras. But 35 percent of the WAP was economically inactive, and another three percent was openly unemployed. As a result, only 38 percent of the total population was working. This broke down across sectors as follows: 10 percent of the total population worked in agriculture, eight percent in industry (including mining), and 20 percent in services. As a proportion of total jobs, services represented 52 percent, industry 22 percent, and agriculture 26 percent. When we focus on the class of job (not the sector where people work) we find that 54 percent of all jobs were wage jobs, 10 percent were employers, 27 percent were self-employed (in

agriculture or household enterprises), and nine percent providing unpaid labor in family businesses. The gender differences in these data are striking: men take 65 percent of the wage jobs, likely to be “better” jobs. Honduras’ employment structure is now moving towards that of lower middle-income countries (LMICs), where wage jobs account on average for over 70 percent of jobs, compared with 30 percent in low-income countries (LICs). This reflects a significant advance in the structural transformation of the Honduran economy, consistent with Honduras’ recent graduation from LIC to LMIC status.

A high proportion of Honduran jobs across all sectors (including both wage and non-wage jobs) remains informal, exhibiting low productivity and poor job quality. On any of the several metrics used to measure informality, Honduras has one of the highest rates of informality in the LAC region.¹ Using the “productive” definition of informality developed by SEDLAC, we classified formal jobs as those in entities with more than five employees; or self-employment among relatively well-educated people (completed secondary or tertiary education). The results are striking: 58 percent of jobs in Honduras remain informal; and only 42 percent are formal. A pattern of dualism between formality and informality runs across all sectors in the Honduran labor market, and most poorer quality jobs are informal. Breaking down the 58 percent of jobs that are informal, we find that 28 percent are in services; 19 percent are in agriculture and 11 percent are in industry. The breakdown for the 42 percent of jobs which are formal is: 23 percent are in services; 11 percent in industry; and eight percent in agriculture. It is not surprising that there are more informal than formal jobs in agriculture and services, but this pattern persists even in industry; there are still as many jobs in Honduras’ small-scale artisanal sector as there are in industrial factories and mines.

The upshot is that most Honduran workers still work in occupations associated with low productivity and earnings. Around a quarter of Honduran workers are in “elementary” occupations. In services they are street vendors, domestic helpers, shoe-cleaners, building caretakers, messengers, garbage collectors, and vehicle cleaners. In agriculture, they are farm laborers. In industry, they are maintenance workers, basic laborers, and handlers. Another quarter of jobs are in services and market sales, and 16 percent are in crafts. Only about a third of Honduran jobs are in more skilled, higher remunerated jobs in agriculture, industry, or services. There is a large, persistent gap in earnings, averaging over 150 percent in 2016, between informal wage jobs and formal wage jobs.

To reduce poverty, accelerating the growth of better jobs emerges as a central challenge for Honduran policymakers. There is a clear hierarchy of average earnings per worker across classes of job. As expected, self-employment in agriculture is the least remunerative activity, with average monthly earnings of L.2,404 per worker in 2016, followed by informal wage work at L.3,636 per month, off-farm self-employment at L.4,497 per month, and finally formal wage work at L.9,300 per month.

Households combine these different classes of job in a variety of ways. Some 35 percent of households allocate labor solely to formal wage jobs (42 percent for urban and 27 percent for rural households). Only 14 percent of households are exclusively dedicated to non-agricultural self-employment (16 percent urban and 14 percent rural). A further 14 percent of households work exclusively in informal wage jobs (12 percent urban and 16 percent rural). Finally, six percent of households are exclusively dedicated to agricultural self-employment (one percent urban and 13 percent rural).

But households need not limit themselves to a single type of job, and 31 percent of households allocate labor across multiple job types. For example, eight percent of households in rural areas combine self-employment in agriculture with formal wage work, and seven percent combine formal and informal wage work. Other combinations include: self-employment in agriculture and informal wage work (four percent) and self-employment in agriculture together with self-employment outside agriculture (three percent). In urban areas, the most common combinations are: self-employment outside agriculture plus formal wage work (12 percent),

¹ There are a variety of ways to measure informality. We used the “productive” definition of informality developed by SEDLAC. The rationale for this classification is that the consequences of informality in terms of productivity are strongly correlated to firm size, which affects scale economies and access to capital. It also has the advantage of being observable for the whole labor force in household survey datasets, which register data on the size of the establishment where people work.

formal and informal wage work (eight percent), and self-employment outside agriculture and informal wage work (five percent).

Some jobs combinations enhance household income better than others. We calculated the total labor income earned by working-age household member from their main occupations and divided this by the number of working-age members in the household. In urban areas, households dedicated exclusively to formal wage work do best, averaging L.6,062 per month; but those combining formal wages with non-agricultural self-employment come close at L.5,493 per month. In rural areas, households combining self-employment in non-agriculture plus formal wage work do best at L.4,400 per month.

Increasing the intensity of household labor use represents an important policy goal. Labor is the main asset held by households, so labor intensity is an important driver of increased average earnings, both in rural and urban areas. Honduran households that use less than a quarter of their adult labor supply for remunerated work have an average per capita labor income of around L.1,026 per month. Increasing this ratio into the 25 to 49 percent range doubles rural earnings and triples urban earnings. Increasing it above 75 percent raises average labor earnings to L.4,222 in rural areas and to L.6,770 in urban areas. However, only 27 percent of rural households use over 75 percent of their labor supply for paid work; while in urban areas this increases to 36 percent.

Opportunities to intensify labor use increase when diverse sources of jobs are available. Three combinations of job types raise occupation rates above 75 percent in both urban and rural settings: self-employment outside agriculture plus informal wage work; self-employment outside agriculture plus formal and informal wage work; and self-employment outside agriculture and formal wage work.

Diversification is not the only way to intensify labor utilization, and some types of diversification appear unpromising. For example, diversification between agricultural self-employment and non-agricultural self-employment yields relatively low average labor earnings (L.1,414 per month), still below the rural moderate poverty line (L.1,668). This may explain why only three percent of rural households diversify work in this manner. Combining farming with informal wage jobs, while somewhat more common (4.5 percent of households) results even lower per capita labor earnings per household (L.1,152 per month). Rural households do better when they combine farming with formal wage work (L.2,479 per month); or move out of farming altogether into formal wage work (L.3,390) or non-agricultural self-employment (L.2,445). About 27 percent of rural households have moved completely to formal wage work while 11 percent have moved completely to non-agricultural self-employment.

Average earnings of Hondurans who are self-employed in agriculture vary widely, depending on labor intensity. Farming households that focus more on income-generating agriculture (cash crops) do much better than subsistence farming households, whose labor is often chronically underemployed.

Intensifying remunerated work for poor households should be a central policy goal. Relevant policy interventions applicable for both urban and rural areas include: promote diversification to wage jobs (both formal and informal) and support for non-farm household enterprises. For rural areas, support for the intensification of agricultural activities should be a priority. Stronger market linkages, which increase the possibility of capitalization and increase labor productivity, are a common theme of all these transformations.

LABOR SUPPLY CHALLENGES

Honduran demographic and educational trends are improving, but the potential for improved labor market outcomes is undermined by economic inactivity, especially among women. The quality of labor supply in Honduras (as in other countries) depends on demographics, social factors, education, and training systems. Without doubt, Honduras' demographic situation is starting to improve. From 1960 to 1990, a high level of fecundity kept the dependency ratio high. The working-age population (WAP) was less than 55 percent of the total populations, and slow decline in fecundity, a result of urbanization, was offset by improved infant mortality rates, linked to better primary health systems. In 1990, Honduras and Nicaragua had the lowest share of WAP in the region at 55 percent. This compared with WAP rates between 60 percent and 65 percent

in Costa Rica, El Salvador, Ecuador, and the Dominican Republic. Since then, all countries in the region have benefitted from demographic changes: a slowing population growth and reduced population share of children, while the share of the old-age population remains small. However, compared with the rest of the region, Honduras' demographic transition lags. Today, Honduras' WAP is around 62 percent of the total population, compared with 70 percent in Nicaragua, Ecuador, and the Dominican Republic; 72 percent in El Salvador; and 78 percent in Costa Rica.

Honduras has done well with increasing educational attainment over the last 20 years, especially for girls. By 2016, only two percent of the emerging cohort (aged 15–24 years) had no education and only 10 percent had not completed primary school. Of the total population, 64 percent had completed primary school, 11 percent had completed secondary school, and 12 percent had some tertiary education. This is gradually increasing the overall educational level of the labor force. In rural areas the share of the male population aged between 15 and 60 which had not completed primary education fell from 59 percent in 2005 to 40 percent in 2016. For rural women it fell from 56 percent to 36 percent. In urban areas for both men and women, the share with incomplete primary fell from 24 percent to 16 percent. Overall, girls' educational attainment is now better than that of boys.

Undoubtedly, significant challenges in the Honduran education system remain. There is a pressing need to increase secondary education coverage in rural areas, and to continue strengthening the governance of the sector and the quality of services. School closures due to strike activity and teacher absenteeism have been greatly reduced and test scores have been improving, but they remain low by international standards. The resurgence of disruptive strike activity in the early months of 2019 is also a source of concern. But, notwithstanding these ongoing serious challenges, this generation of young Hondurans is considerably better educated than their parents.

Honduras' rising WAP and improved educational attainment are creating opportunities to accelerate GDP growth and poverty reduction. But for this to come about, two things must happen. First, the labor force participation rate (LFP), the share of the WAP that seeks work, must be increased. Secondly, the average quality of jobs must continue to improve. Over the last ten years, LFP has been stuck at 65 percent of the WAP. This average conceals very different participation rates for men (85 percent) and women (47 percent). So, increasing Honduras' LFP means, above all, getting more women into the labor force. Low female LFP reflects a number of constraint specific to women: childcare responsibilities, social norms about allocation of un-remunerated household tasks, risks of exposure to violence in traveling to work, and discriminatory workplace practices that discourage women from seeking jobs.

Gender-related constraints to LFP play out in the form of "NEETs"—those who are Not in Employment, Education, or Training. Twenty five percent of Honduras' WAP was NEET in 2016, but this is especially true for women, who make up 88 percent of Honduras' NEETs. The same pattern is repeated in urban and rural areas. The central issue is that young women with mid-level education (completed primary or incomplete secondary education) are far less likely to be working than men in the same group. This is particularly worrying since 65 percent of the emerging female cohort falls into this category of educational attainment. At higher levels of education, the problem starts to disappear: young women who have completed secondary or tertiary education are much more likely to work than those who dropped out of school during secondary education. But only 24 percent of young women have reached that level of education presently.

Girls now perform better at school than boys in Honduras, so it seems unlikely that differential educational attainment is the main driver of low female labor force participation. Strikingly, the educational attainments of young female NEETs (aged 15–24) are on average better than those of young women who work or study. For example, 66 percent of women in rural areas who are working have completed primary education or have some secondary education; but the share for NEETs is higher at 69 percent. Likewise, in urban areas, the corresponding figure is 55 percent for working women, and 64 percent for female NEETs. This suggests a gender-specific labor supply function. Young women who have achieved a better education than their parents (say, by completing primary education; or by completing the "Certificate of General Culture"

program in the third cycle of basic education, grades 7 to 9) may be reluctant to take poor quality jobs, such as unpaid labor on the family farm, or self-employment in commercial services in precarious urban street markets.

These findings support the hypothesis that improvement in female education has run ahead of job creation in desirable areas for better-educated girls and women. There is a shortage of higher skilled workers in the Honduran labor market, but there is a glut of middle-skilled workers. The result is a high share of female NEETs, who are queuing until a job that matches their skillset becomes available. It is not necessarily helpful to describe this problem in terms of inflexible reservation wages, which suggests that the problem could be fixed if wages fell to the market-clearing level; it is well-known that in dualistic labor markets, wage rates will not normally shift to clear the market. The problem is better understood in terms of a mismatch between the quality of the emerging female workforce and the quality of jobs, including the degree of security and dignity associated with them. In contrast, men—whose social role requires them to support their family—will tend to take whatever job they can get. These gender-specific labor supply functions are reinforced by well-known patterns of social differentiation linked to gender roles in the household.

There is also a risk of a negative feedback loop, with the lack of better jobs leading to reduced household demand for education. If young people do not perceive that staying at school will bring them better job opportunities, there is a risk that they will tend to drop out of secondary education. That, in turn, will undermine the accumulation of human capital and constrain future Honduran productivity growth potential.

Faced by the lack of jobs opportunities at home, many young Hondurans (often the most dynamic) opt to migrate. As of 2016, around 7.5 percent of all Hondurans were living in the USA, up from 5.5 percent in 2006. The resulting remittance incomes contribute to poverty reduction, but they also tend to undermine competitiveness by raising the equilibrium real exchange rate (the “Dutch Disease” effect). The flow of remittance income was estimated at around 19 percent of GDP in 2017. While sustaining household incomes, remittances also tend to raise reservation wages in receiving households, so remittance recipients are less likely to participate in the labor force. Dependence on remittance income is also a source of vulnerability, both for households and for the macroeconomy, in the face of shifting policies towards migrants in the USA. The migration process is also increasingly precarious, leading to huge personal risks as migrants cross Guatemala and Mexico and into the USA—especially for women and child migrants.

The Technical and Vocational Education and Training (TVET) system in Honduras is ripe for reform to strengthen its effectiveness in helping young people get better jobs. To complement expanding general education, Honduras also needs to strengthen training programs for work-specific skills. As is well known, externalities linked to training lead the market to under-supply such services: firms and families will spend less than is socially optimal, so there is a strong case for public funding. This is particularly important for youth from poor families, whose lack of work experience and of family connections makes it hard for them to compete for jobs in the better jobs market segment, which is characterized by an over-supply of general educational qualifications (relative to the number of jobs available). As a result, they can never get work-specific skills needed by formal firms and are forced towards informal jobs.

The main public funding for TVET is channeled through the Instituto Nacional de Formación Profesional (INFOP), which collects a one percent payroll tax from the formal sector. Much of this effort is focused on young people: 57 percent of trainees are between 15 and 29 years old. However, most INFOP trainees (87 percent) are already in jobs and are looking to upgrade their skills. Only 11 percent of courses focus on labor market entrants (either for informal or formal work). Only two percent of trainees funded by INFOP get “on the job training.” INFOP offers little job placement support for other trainees and programs are often outdated. INFOP’s staff (rather than trainees) are arguably the principal beneficiaries.

The Government of Honduras (GoH) is committed to strengthening links between INFOP and the skills needs of private sector firms—especially those firms in target industries of Plan 20–20. Responding to strong pressure from the private sector, INFOP over the last 20 years has gradually extended its use of third-party training providers such as PROCINCO and CADERH. These presently account for about 20 percent of the INFOP budget and 40 percent of training places, and are more demand-oriented than traditional INFOP programs. This is in line with strong international evidence on the effectiveness of privately delivered, performance-based

contracting for training services. In early 2019, COHEP increased the pressure for reform, and called for a boycott of contributions to INFOP from the private sector. In response, the GoH proposed reforms, with INFOP's future role to be focused on financing and regulation of programs. If implemented, these reforms would rebalance the system to support youth labor market preparation, using private delivery mechanisms linked to performance metrics (such as trainee job placement rates) but with strong regulation to ensure program quality. That would mark a transformation in the effectiveness of publicly-mandated funding for TVET in Honduras.

PRIVATE SECTOR GROWTH AND THE DEMAND FOR LABOR

Section 3 analyses factors influencing formal and informal private sector job growth and considers policy implications. Findings from the World Bank's Enterprise Surveys indicate that formal firms in Honduras have created fewer jobs in recent years than those elsewhere in the region, with total jobs growth of 2.5 percent between 2012–15, compared with 10 percent in Nicaragua and five percent in the Dominican Republic, Costa Rica, and El Salvador.

Most formal sector firms are small, but most jobs in formal firms are in larger firms. World Bank Enterprise Survey data (2015) indicate that over 50 percent of sampled firms had less than 10 employees, but 62 percent of the jobs in the sampled firms were in those with 100 employees or more (which constitute only seven percent of total firms). The survey data also indicates strong positive correlation between firm size and wage levels.

Formal businesses point to a range of constraints to expanding jobs. When firms are asked about the main constraints, in first place were problems getting access to finance (18 percent), followed by competition from informal firms that don't face the same costs (16 percent), tax rates (11 percent), and problems dealing with licensing authorities (8 percent). Low worker skill levels, corruption, crime, and disorder also ranked high (around seven percent mention for each), while political instability and labor regulations were cited by around five percent of respondents.

A World Economic Forum (WEF) survey in 2017 found a similar set of constraints to job expansion, but with some differences. Tax rates, crime, bureaucracy, corruption, tax regulations, and policy instability were the most cited problems (between 10 percent and 15 percent of respondents). In that survey, labor regulations, access to finance, workers skills and infrastructure scored lower (all around five percent or respondents). The low score for infrastructure in both these surveys, indicating that it is not seen as a major constraint, is consistent with the considerable improvements in Honduran infrastructure over the last decade, especially for roads and ports.

The World Bank's Doing Business indicators ranked Honduras 115th among 190 countries in 2018. A caveat to the firm surveys summarized above is that the opinions of those businesses that survive may not capture business climate factors that have prevented other businesses from existing. Another issue is that their responses may reflect strategic positioning; for instance, even when capital markets are working well, businesses might stress the need for cheaper finance as that would increase their profits. In contrast, the World Bank's Doing Business indicators aim to use objective measures, rather than surveys of firms' opinions. Some priority areas for improvement according to the Doing Business indicators are: protecting minority investors, improving contract enforcement, making it easier to pay taxes, reducing electricity costs by eliminating excessive system losses; and facilitating cross border trade. Recent advances in the customs union arrangement with Guatemala augur well in this regard.

Analysis of firm and household data suggests that the minimum wage (MW) is "binding" in most, but not all, of the formal sector. The analysis of earnings by firm size show that medium and large firms largely adhere to the MW, while small firms (with five workers or less) do not. Sector-level analysis also shows clear separation between informal and formal sector earnings in manufacturing, in wholesale and retail trade, and in hotels and restaurants, with formal firms normally adhering to the MW, while small businesses often do not. In contrast, the pattern of earnings in agriculture and in construction is less clearly differentiated between formal and informal workers, suggesting that formal firms in those sectors use a great deal of informal labor and do not always comply with the labor code.

Changes in the MW may have hampered formal job growth after 2008. In 2008, the MW was raised by 40 percent, taking Honduras' MW way above all other countries in the region. Honduras's MW was more than double compared to Nicaragua, Guatemala, the Dominican Republic, and Panama; and 35 percent above that of Costa Rica and Ecuador, where GDP per capita is more than three times higher than Honduras. Having stood at about 30 percent below average earnings in the Honduran economy from 2001–2008, the MW has been about 30 percent above average earnings since then. Time series data show that the increase in the MW coincided with a reversal of relative growth trends of formal and informal jobs in Honduras. Between 2001–2007, formal jobs grew much faster than informal jobs. Formal jobs increased by 33 percent, from 600,000 to almost 800,000, while informal jobs increased just 12.5 percent from 400,000 to 450,000 in the same period. But from 2008–2014, the number of formal jobs flat-lined at around 800,000 (zero growth), while the number of informal wage jobs rose 33 percent from 450,000 to 600,000. After 2014, formal jobs growth picked up again, and informal jobs growth flattened. Even then, much of the recovery in formal sector jobs growth came from the maquila sector, where the MW was suppressed relative to the rest of the economy. Agreements in January, 2018 to further raise the MW over the next two years in real terms are likely to undermine the recovery in formal jobs growth. The strong linkages between the MW and wage adjustments for higher earners in the formal sector will likely reinforce this effect.

Another factor that may suppress growth in private sector jobs is public sector competition for higher-skilled workers. The public-sector wage premium for similarly skilled workers in Honduras is 33 percent, compared with a global mean of 20 percent. There is a striking difference between the educational levels of public sector and private sector workers: in 2016, over 50 percent of public sector jobs went to people with some tertiary education, and another 20 percent to people who had completed secondary education. The figures for the private sector were, respectively, just nine percent and 12 percent. Most jobs in the private sector (50 percent of the total) go to people who have completed primary and some secondary education, and 21 percent of jobs go to people with incomplete primary education. In the public sector, the corresponding numbers are much lower, at 23 percent and four percent. Policy makers should bear these issues in mind when determining public sector wage levels.

As well as correcting policies that disincentivize private sector growth, the GoH should actively support expansion of businesses that create better jobs for low-income youth. The benefits to society from workers getting better jobs are enormous, but recent history suggests that the market will not, of its own accord, create enough productive jobs. There is a large gap between earnings in jobs linked to modern markets, whether the job is formal or informal, compared to earnings in low productivity, traditional activities. For the number of better jobs to expand, firms need to invest. But the goal of profit-maximizing firms is not to create jobs—it is to maximize returns to capital. So, private firms tend to invest less than is socially optimal in labor-intensive projects that can transform jobs for poor people.

The existence of jobs-linked “externalities” supports the case for corrective public policies and programs to accelerate the growth of better jobs, especially for vulnerable youth and young women. Economists refer to the discrepancy between firms' private incentives and the public interest in job creation as an “externality.” The size of the externality depends on potential income gains to workers when they get better jobs (known as labor externalities), which can contribute to poverty reduction. When the workers who get better jobs are also vulnerable—such as teenage boys tempted to join the *mara*,² or teenage girls tempted into premature family formation—there can be additional “social externalities” (gains to society), such as reduced criminality or healthier children.

Existing programs to support faster job creation in Honduras, while a step in the right direction, could be improved. The GoH has recognized the importance of directly supporting job creation for low-income youth through programs such as “Con Chamba Vivis Mejor,” which offers short-term work experience for unemployed youth. Members of the Chambers of Commerce and Industry offer jobs that match the profiles of youth registered with the National Employment Service (SENAEH). The program pays 50 percent of wages for three months. It was initially supported by the IADB. A World Bank-financed evaluation in 2014 found that participants increased their wages, likelihood of employment, and likelihood of formal employment. Between 2014–2017, the program placed 81,000 youth in jobs, of which 66 percent were men. An evaluation of the

² *Mara* is a form of gang originating in the United States, which spread to Central American countries such as El Salvador, Honduras, and Guatemala.

first six months of the program showed that over 40 percent of the beneficiaries were first time job seekers and a third were long-term unemployed.

These programs could be strengthened by adjusting the design to link new jobs to the sustainable expansion of businesses and by reducing the subsidy cost per job. Ensuring that the firm is expanding its labor force would reduce the risk of substituting other, unsubsidized workers. This would require more emphasis on increasing the demand for labor in participating firms. Requiring participating firms to present a business expansion plan would improve the likelihood that the expansion is sustainable. The 2014 study found that in month four (after the subsidy had ended) only 55 percent of *Con Chamba Vivis Mejor* beneficiaries were still in the job. There is also a case for having an initial phase where the beneficiary is regarded as a trainee, supported with travel costs and expenses, rather than a full minimum wage. That would allow the Government to increase program coverage while incentivizing trainees to perform well so that the employer will take them on as full-time workers.

"Honduras 20–20," a national strategy co-led by the public and the private sector, has set out to expand strategic sectors with an emphasis on job creation. The Government's *Honduras 20–20 Plan* lays out an ambitious set of goals for business expansion and job creation. The Plan aims to generate 600,000 jobs in six strategic sectors: agribusiness, tourism, textile and apparel, housing, light manufacturing, and outsourcing services. By February 2018, the GoH reported that 50,000 jobs had already been created. Without doubt, the sectors chosen offer many opportunities for labor-intensive job creation, including both direct and indirect jobs in primary supply chains. But opportunities might also arise in other sectors, so the Government should be flexible, keeping in mind jobs outcomes as the guiding principle. There is also a need to develop more transparent approaches to the design of public support for private sector jobs growth and minimize public funding for jobs or investments that were going to be created in any case.

To address this risk, the GoH should consider incorporating explicit jobs metrics into decisions regarding public support for expanding businesses. The emphasis would be on supporting businesses that can employ large numbers of workers who have completed primary and some secondary education, where excess labor supply is concentrated. Support might come in a variety of forms, including support for training new workers, support for developing infrastructure (including quasi-public goods such as processing facilities), and support in getting access to finance. Labor intensity should be an explicit consideration. More capital intensive businesses, or those which need classes of labor not easily available in Honduras at internationally competitive wage rates, should not be prioritized. Transparent rules to determine the level of public support based on jobs outcomes would reduce the risk of decisions that benefit "insiders" with political influence.

Honduras also has great potential to improve jobs outcomes for self-employed farmers in rural areas. The World-Bank financed Rural Competitiveness Project (COMRURAL) is an example of how better market linkages can improve the incomes of small independent farmers. COMRURAL provides matching grants to help commercial agribusiness entities (mainly cooperatives) to consolidate and expand their businesses. In Intibuca, potato farmers can earn double the rural minimum wage by selling their crop to the ECARAI commercial cooperative, which in turn supplies supermarkets. This potential to transform the jobs and incomes of smallholder farmers explains why the GoH has recently requested a large additional financing for COMRURAL. The next phase of the program could be further strengthened by incorporating explicit metrics linked to the direct and indirect jobs effects of the candidate sub-projects.

POLICY RECOMMENDATIONS TO IMPROVE JOBS OUTCOMES IN HONDURAS

This Jobs Diagnostic report has argued that persistent high poverty in Honduras is linked to slow structural transformation in the Honduran labor market. Over the last two decades, Honduras has moved gradually towards a more integrated economy, and most jobs are now wage jobs. It has also improved educational attainment (especially for girls). Nevertheless, earnings remain low for many Hondurans and the extreme poverty rate is by far the highest in Central America.

Following extended economic and political crisis since 2008, Honduras has made important gains. Honduras has reduced the level of crime and violence: the homicide rate was more than halved between

2012–2017 and now stands just above 40 per 100,000 population. It has also restored good macroeconomic management and has also continued improving the quality of infrastructure and human development services. Between 2014–17, an IMF-supported program was successfully concluded. In 2017, the fiscal deficit was less than one percent of GDP, down from 7.5 percent in 2013. Real GDP growth reached almost five percent and is projected to remain at around four percent. Gross domestic capital formation reached 24 percent of GDP, and the aggregate savings rate rose to 22.3 percent in 2017, which bodes well for sustaining higher rates of investment and growth in the medium term.

The key challenges facing Honduran policy makers are to sustain growth while spreading the benefits to poor Hondurans through accelerated jobs transformations. Structural drivers of poverty include:

- High economic inactivity, especially among women.
- Persistent high informality across all sectors, associated with under-utilization of labor (underemployment) and low productivity and earnings.

These two problems are related: the poor quality of most jobs is an important driver of low participation rates, especially for women. In all sectors of the economy—agriculture, industry, and services—most jobs are informal, and average labor productivity is improving only in agriculture.

There are opportunities to improve jobs for low-income Hondurans, both by accelerating the growth of jobs in the formal sector and by improving the quality of informal jobs, through improved market linkages in product, capital, and labor markets. All informal jobs are not alike. Earnings from informal wage jobs and from self-employment in household enterprises are generally superior to those from self-employment in agriculture. Poor households can significantly improve average earnings by intensifying use of labor. These findings suggest a case for a coordinated set of programs and policies to support better jobs outcomes for the poor in Honduras, including (i) macroeconomic and regulatory policies, (ii) labor market programs and policies, and (iii) policies and programs to support jobs growth in labor-intensive sectors, including both formal and informal jobs.

i) Macroeconomic policies and the business climate

Honduras should maintain a coherent macroeconomic framework and continue to improve the business climate and strengthen competitiveness. It should work to simplify requirements for operating businesses. Bureaucratic red tape and arbitrariness affect small and medium enterprises (SMEs) disproportionately, and SMEs tend to be relatively labor intensive. The GoH should continue to support reforms to eliminate unnecessary obstacles to doing business. Continuing with recent strengthening of the security situation and administration of justice (including anti-corruption measures) is vital to improve the business climate.

ii) Labor market programs and policies

Honduras faces constraints that undermine formal job creation, while low-income youth are arguably not well supported to access better jobs. Some existing labor market regulations disincentivize firms from creating formal sector jobs. Suggested areas for action to improve the regulatory climate foster better job creation include:

Hold MW growth below productivity growth until it falls back in line with comparable economies. Honduras' minimum wage (MW) is higher than all countries in the region. This seems to undermine competitiveness in labor-intensive activities, pushing many workers into the less-well paid informal sector.

Simplify and reduce contingent liabilities linked to formal labor contracts. High but uncertain entitlements, for instance, to severance pay (prestaciones laborales), reduce firms' willingness to hire workers in the formal sector.

Increase the use of general taxation, rather than payroll taxes, to finance social protection. This is in the context of the universalization of coverage contemplated in the new Social Security framework legislation. Honduras has a high burden of social and regulatory charges in payroll taxes, which increase labor costs by close to 50 percent. This use of payroll taxes creates a "tax wedge" between the cost of labor to a firm and the net wages received by the worker, giving incentives to prefer informality.

Suggested areas for action to improve low-income youth access to better jobs include:

- **Push ahead with the reform of the TVET system (INFOP).** Reforms are needed to increase the use of private delivery systems, with performance-based incentives including paying training agencies a premium for job placements. This should be coupled with strong, independent regulation. There should be more emphasis on training the unemployed and on English training. Where the lack of higher-skilled workers creates a bottle neck, the Government should support training in the necessary skills and should also allow firms to use foreign workers to avoid delays.
- **Review jobs subsidy programs to improve them.** These programs should incentivize job expansion, to reduce the risk that subsidized trainees will crowd out other workers. Lowering benefits paid would make it possible for more youth to be covered. Focusing on previously unemployed workers would improve targeting. Programs subject to political influence should be phased out.
- **Redesign cash transfer programs in urban marginal areas.** Programs such as the *Bono Vida Mejor Urbano* should aim to incentivize the participation of adolescents in training activities or work.
- **Promote women's labor force participation.** Target training and job subsidy programs to sectors and job types likely to be attractive to women, providing childcare options, giving personal security guarantees for participants in training and job programs, and monitoring gender data.

iii) Sectoral and regional programs

Honduras' jobs problem is rooted, above all, in the lack of private investment to create enough good jobs for the emerging labor force. Even if the macroeconomic situation remains stable and the investment climate is strengthened; and even if regulatory problems in the formal labor market are resolved and training systems improved, firms will not necessarily create jobs at a rate optimal for Honduras. So, there is a public policy interest in incentivizing firms to create more good jobs and supporting faster growth of labor-intensive industries.

Possible policy actions include:

- **Design transparent rules for accessing public support, which aim to achieve the maximum jobs impact with available funding.** Public support for private sector development should follow Maximizing Finance for Development principles. Using tax incentives and reforming the taxation system to reduce taxation on jobs (such as payroll taxes) should also be analyzed, and fiscal exonerations should be strictly time-bound.
- **Use efficient approaches to financing private investments.** Maximizing finance for development also implies helping financial markets to provide capital as efficiently as possible, using instruments such as partial risk guarantees, rather than interest rate subsidies. In some cases, for instance supporting SME expansion, there may be a case for grants (instead of loans) to strengthen firms' equity and make them bankable, but grants should be allocated using transparent rules linked to business expansion and have requirements to mobilize the lion's share of the capital in private markets.
- **Promote labor-intensive technology.** There are often alternative options for producing something, whether a capital good or a consumer good. Given the large surplus of under-utilized labor in Honduras, general preference should be given to more labor-intensive options.
- **Take indirect jobs into account when analyzing the impact of projects.** This is particularly important for projects that have upstream value chain linkages to primary production. Jobs in agricultural self-employment can be enhanced with inputs, technical assistance, and guaranteed markets. Agribusiness and tourism both offer good potential for such linkages.
- **Include job creation effects in the economic appraisal of local and regional economic development and rural infrastructure projects.** For example, if a new road is expected to expand economic activity in the corresponding region, projected income gains for low-income workers should be factored into the analysis.
- **Facilitate integrated support and cross-agency cooperation to help lagging regions improve jobs outcomes.** Where there is plausible opportunity for sustainable economic expansion, based on identified comparative advantages, national agencies should work with local authorities to design coordinated support packages.



Improved roads infrastructure has increased the potential for job creation in many regions of Honduras



INTRODUCTION: WHY HONDURAS NEEDS MORE AND BETTER JOBS

Honduras faces major challenges to accelerate higher-productivity job creation that allows workers to shift from traditional work and reduce dependence on social assistance. Long run economic growth has not only been disappointing, it has also been insufficiently transformational. Despite improving human development indicators, slow growth has failed to generate the jobs needed to sustain mass improvement in livelihoods. A high share of the labor force remains engaged in informal work, with low productivity and poor earnings. Less than 40 percent of the labor force works in formal sector jobs, which tend to be more productive and better paid. Formal firms tend to be larger, allowing for specialization and scale economies, and they are often better capitalized. There is a growing problem of “NINIs,” working-age people who are neither working nor studying. Migrant outflows are also rising, reflecting the frustrations of young people who are better educated than their parents but unable to find opportunities that meet their rising expectations.

For these reasons, Honduras needs to re-evaluate its development policies to postulate a Jobs Strategy, rather than simply focusing on growth. This is in line with the “Jobs and Economic Transformation” special theme of IDA 18/19. This Jobs Diagnostic report aims to provide a starting point for that discussion, by showing how the labor supply and firm/growth/competitiveness pictures fit together, to provide a basis for identifying policy priorities to accelerate economic transformation and improve jobs outcome for the poor.

Honduras jobs challenges include:

- **Slow per capita income growth linked to limited structural economic transformation.** This has resulted in a large mass of low-productivity jobs in all sectors—agriculture, industry, and services—and a relatively small number of jobs in larger, better capitalized businesses across the three sectors.
- **Disappointing results on growth and poverty, which contrast with steady improvement in human capital indicators (including child mortality rates and educational attainment).** Although Honduras’ workforce has become progressively better educated and healthier, the economy has not created enough good jobs to take advantage of its improved labor supply. As a result, labor productivity has lagged. The divergence between labor force potential and slow productivity growth suggests “demand-side” limitations.
- **High informality.** Work informality in Honduras’ is among the highest in Latin America and the Caribbean (LAC). In the “productive definition” of informality, wage workers in small firms with fewer than five employees, unskilled self-employed people, and unpaid family workers are classified as informal. On this basis, 56 percent of jobs in Honduras are informal. Unskilled self-employed individuals and small businesses lack the scale and the capital needed to raise productivity. So, they produce badly paid, poor quality jobs, and households depending on them have a high probability of being poor.
- **Low labor force participation rates, especially for women.** Faced by the lack of good job opportunities, many young Hondurans are dropping out of the labor market. Twenty-four percent of young people (aged 15 to 24) are “NEETs” (neither working nor studying). The NEET problem is compounded by the recent upsurge of violence linked to criminal gangs. Contrary to common belief, most NEETs are female, so, like many countries, Honduras’ jobs challenge has a strong gender dimension.

- **High out-migration.** Other young people (often the most dynamic) have opted to migrate. As of 2016, around 7.5 percent of all Hondurans were living in the U.S.³—up from 5.5 percent in 2006. The number of Honduran immigrants in the U.S. increased at an annual rate of five percent per year from 2006 to 2016 (Annex Figure 1). The Temporary Protected Status (TPS) for Hondurans and Salvadorians living in the United States allows eligible people to live and work in the U.S. while conditions in their home countries make it unsafe for them to return. However, this protection is scheduled to terminate for Hondurans in January 2020, which would imply sending thousands of people back to Honduras (UNICEF, 2018). Crime, job and education opportunities, and family reunification are the main reasons why Hondurans migrate to the U.S. One positive note is that the crime in Honduras has decreased markedly. According to the InSight Crime foundation, in 2017 the homicide rate was 43 per 100,000 population, down from around 86 per 100,000 in 2013.
- **Remittances incomes contribute to poverty reduction, but they also bring negative side effects.** Hondurans abroad send remittances totaling US\$4.01 billion, equivalent to 18.4 percent of Honduran GDP in 2017 (KNOMAD, 2018). The flow of remittances has helped sustain household incomes (Hernandez et al., 2016), but remittances also tend to undermine competitiveness by raising the equilibrium real exchange rate (an effect known as “Dutch Disease”). At the household level, remittances tend to raise reservation wages in receiving households, making recipients less likely to participate in the labor force. Dependence on remittance income is also a source of vulnerability, both for households and for the macroeconomy, in the face of shifting policies towards migrants in the U.S.

The good news is that Honduras could “cash in” the “demographic dividend” if it can create enough good jobs to absorb the growing influx of young people into the labor force. Over the next two decades, Honduras will undergo a demographic transition, where the share of the working-age population will rise. Declining fertility rates will reduce the share of child dependents, while old-age dependents will remain relatively small. However, to take advantage of these demographics, it will need to generate enough good quality jobs for the emerging workforce. New jobs do not have to be formal sector wage jobs; they can be informal wage jobs or self-employment jobs with improved productivity and incomes driven by better links to markets. That means addressing investment constraints in labor-intensive sectors, creating human capital suited to the needs of an expanding modern sector, and providing work opportunities for young entrants, especially those from low-income households.

The Government of Honduras (GoH) is conscious of the urgency of the jobs challenge. The Hernandez administration has prioritized programs to promote formal jobs, such as the temporary wage subsidy program “*Con Chamba Vivís Mejor*.” It has initiated a reform of the social security system to increase formality. It has also announced plans to overhaul the vocational training system run by the *Instituto de Formación Profesional*, INFOP to make it more responsive to private sector needs. The Government has also announced a large increase in subsidized lending for housebuilding, which it hopes will generate jobs in that relatively labor-intensive sectors.

In coordination with private sector organizations, such as COHEP, the Government has developed Plan 20–20 to generate 600,000 jobs over five years. *Plan 20–20* aims to tackle obstacles to private investment and to accelerate growth in prioritized sectors, which include light manufacturing, tourism, business process outsourcing, agribusiness, and construction. The World Bank Group’s Honduras Strategic Country Diagnostic (SCD) highlights a similar group of high-potential sectors, including agriculture (especially coffee, palm oil, and sugarcane); manufacturing (maquila); and services (especially communications, financial services, tourism and construction).⁴

The goal of this study is to help the Government of Honduras identify effective policies and programs for accelerating jobs transformations. It provides analytical grounding for the development of a “jobs action plan.” This includes interventions on the labor supply side to improve the quality and market relevance of education, vocational training, and labor market intermediation services; and on the labor demand side to put in place cost-effective incentives to private investors to create sustainable, productive jobs—including both wage jobs and jobs linked to modern supply chains for independent (often informal) producers.

³ Calculations made using data from the Migration Policy Institute [MPI] Data Hub and the EPHPM.

⁴ Hernandez et al., 2016, Section 3.3, pp 41–45.

Following this introduction, the study is organized in four parts. Section 1 analyses broad trends in jobs, growth and poverty over the last 20 years. Section 2 focuses on labor supply challenges and related public policies. Section 3 turns to the evolution of private sector labor demand and the policies and programs that affect it. Section 4 concludes by summarizing suggested policies to improve Honduras' jobs outcomes. Annex 1 details the methodology, based on standard Jobs Diagnostic tools developed by the World Bank's Jobs Group. Box 1 details important considerations about the main data sources of this analysis.

BOX 1: DATA SOURCES

This Jobs Diagnostic is based mainly on the following datasets:

World Development Indicators (WDI): The World Bank consolidates data from national governments, IMF, UN, and the ILO, among others, to provide internationally comparable indicators in the WDI dataset. For this study, indicators such as GDP, GDP per capita, poverty and inequality rates, and demographic variables were drawn from the WDI. Some of these data are based on outdated frameworks; for example, the last Honduras income and expenditure household survey, used to calculate weights for the consumer price index and national accounts system, was held in 1998.

Honduras Central Bank National Accounts (NA): These were used for the value-added and labor productivity analysis by subsector of economic activity. The NA are also the main input for GDP series in the WDI. There are important shortcomings in the production of Honduras' NAs, including the use of different methodologies over time and across sectors to calculate Value-Added; and an outdated sampling framework [based on the economic census of 2001].

The Multi-Purpose Permanent Household Survey (EPHPM): The Jobs Diagnostic uses two datasets based on EPHPM data but using standardization methodologies: SEDLAC¹ and the International Income Distribution Dataset (I2D2).²

The World Bank Enterprise Survey was used to characterize firms' demand for labor.

World Bank Honduras Enterprise Survey [2016]: Box 4 in the report discusses its limitations.

Doing Business Indicators: The Jobs Diagnostic uses Doing Business data on investment climate and regulations for Honduras and comparator countries.

¹ See <http://www.cedlas.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/>.

² See <http://siteresources.worldbank.org/INTLSMS/Resources/3358986-1239390183563/6012606-1372767340841/Beegle.pptx>



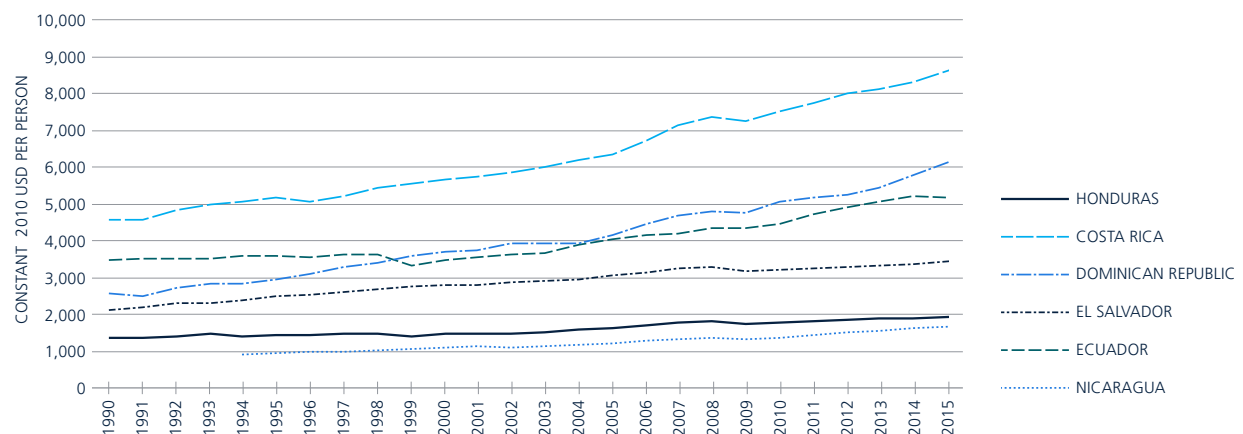
Maquila sector workers in northern Honduras

1. JOBS, GROWTH, AND POVERTY

For several decades, Honduras has exhibited a persistent syndrome of slow and volatile growth. As a result, growth in per capita value added has been slow and the gap with other countries in the region is widening (Figure 1). From 2000 to 2015, value added per capita in Honduras increased at 1.8 percent annually, half the growth rate in Dominican Republic (3.4 percent), and around two-thirds the rate in Nicaragua, Costa Rica, and Ecuador (2.8 percent). Honduras is the only country among these comparators where growth was lower in the post-global crisis period (2010–2015) than the full 15 years (2000–2015). Rapid population growth is widening the per capita income gap between Honduras and the world, but the main reason behind poor performance from 2010 onwards was the contraction of employment and a fall in labor productivity. A more resilient economy and a record of robust long-term growth would have done more to cushion these impacts. However, volatility has typified economic growth over more than five decades. Between 1960 and 2014, the standard deviation of growth in Honduras was 44 percent, 83 percent, and 52 percent larger than that of low and middle-income countries (LMICs), high-income countries, and the US. In this time, there were only two periods in which economic growth was sustained for more than five consecutive years (Hernandez et al., 2016). Such volatile growth inhibits the capacity of the private sector to invest and create jobs, which in turn undermines poverty reduction and exacerbates inequalities.

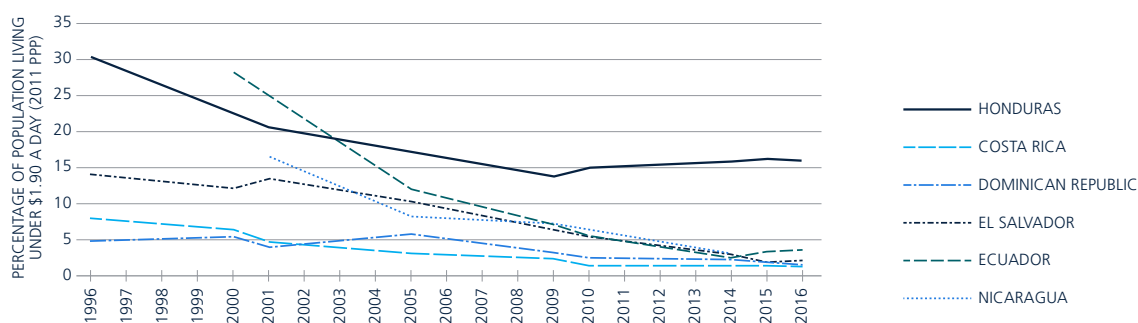
Honduras performance on poverty and income distribution is the worst in the region and has not improved over the last decade. Extreme poverty is more persistent in Honduras than in all neighboring countries, and inequality indicators are also the worst. Extreme poverty, based on the World Bank standard of \$1.9 a day in purchasing power parity (PPP) 2011, fell from around 30 percent of the population in 1996 to about 15 percent in 2008, when the global financial crisis and domestic political crises hit. But since then, the number of Hondurans in extreme poverty has flatlined and has even reversed some earlier gains, standing at 16 percent in 2016 (Figure 2). This is more than double the extreme poverty rates of all other countries

Figure 1
Per Capita Value Added in selected LAC countries



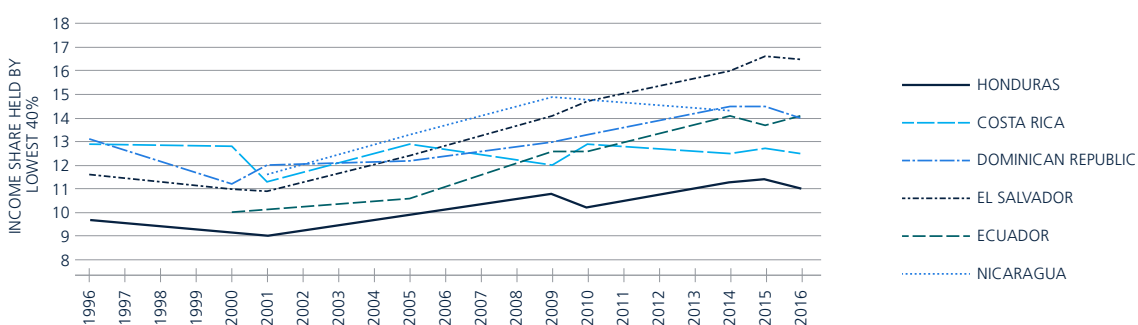
Source: Jobs Group Demographic Tool, using WDI data.

Figure 2
Extreme Poverty Rate in selected LAC countries



Source: The World Bank, using WDI data.

Figure 3
Income share of the bottom 40 percent in selected LAC countries



Source: The World Bank, using WDI data.

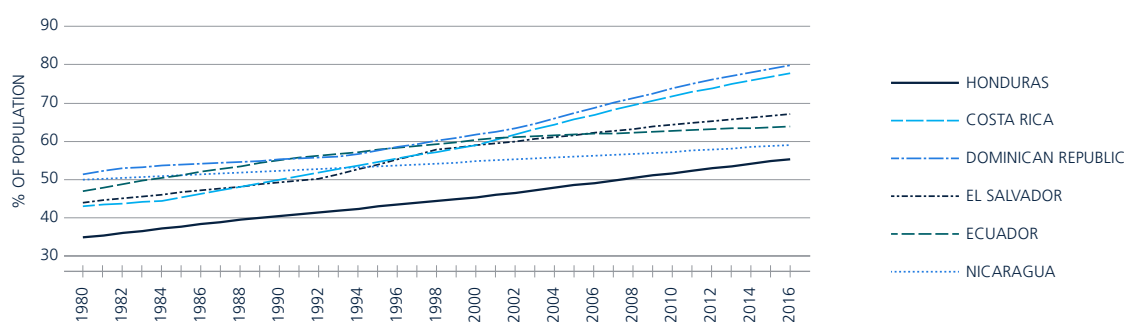
in the region. Similarly, the poverty headcount (based on the World Bank standard of \$3.2 a day in 2011 PPP) stands at 30 percent. Again, this greatly surpasses comparator economies, which are in the range of 3.8 percent (Costa Rica) to 10.3 percent (El Salvador). The poverty headcount ratio using the national poverty line is 60.9 percent in 2016. Honduras also reports persistently high inequality. In the twenty-year interval between 1996 and 2016, the income share of the bottom 40 percent crept up from 10 percent to 11 percent. In contrast, El Salvador reported an increase from 11 percent to 16 percent; and Nicaragua, Ecuador, and the Dominican Republic all rose from around 11 percent to around 14 percent. No other country in the region today has an income share for the bottom 40 percent that is below 13 percent (Figure 3).

Urbanization brings opportunities for accelerating productivity growth. Although the urban share of the population remains below that of neighboring countries, it has reached 55 percent and is growing steadily (Figure 4). Well-managed urbanization accelerates development through agglomeration economies, better paying jobs, and improved access to facilities and services⁵ (World Bank and IMF, 2013).

Linked to urbanization, Honduras has moved steadily from an economy dominated by subsistence jobs in agriculture; most jobs are now wage jobs, and most workers are in services and industry. The labor force is growing faster than the working-age population, and the unemployment rate is relatively low (Table 1). Overall, Honduras' employment structure is becoming progressively closer to that which typifies LMICs, where wage jobs account on average for over 70 percent of jobs, compared with 30 percent in low-income

⁵ Globally, over 80 percent of global goods and services are produced in cities. In South Asia, 60 percent of urban dwellers have access to sanitation facilities, compared with 28 percent in rural areas. (World Bank and IMF, 2013).

Figure 4
Urban Population Share



Source: World Bank Jobs Group Demographic Tool, using WDI data.

countries (LICs). This reflects a significant advance in the structural transformation of the Honduran economy, consistent with Honduras' recent graduation from LIC to LMIC status.

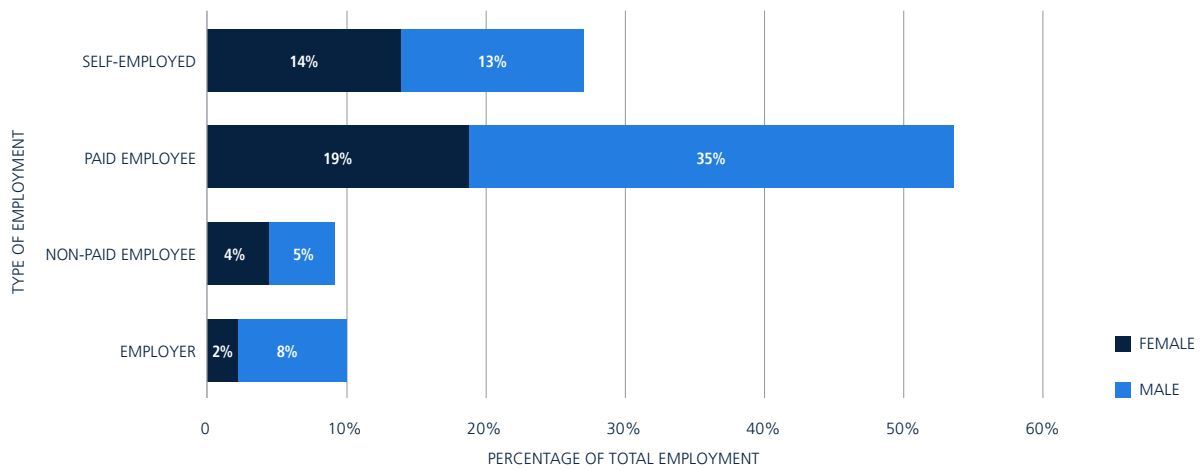
Wage jobs are now the main type of work in Honduras. Wage jobs' share of total employment rose by five percentage points between 2005 and 2016 to reach 54 percent, of which two-thirds are held by men. About a quarter of all jobs (27 percent) are in self-employment, with similar proportions of men and women (Figure 5). Unpaid family labor accounts for nine percent, again with similar proportions of men and women. Some 10 percent the working population are employers, mainly men.

Table 1
Demographic and Labor Market Snapshot

	2005	2016	
	1,000 persons		Percent change
Population, total	7,199	8,713	21.0%
Working Age Population (WAP), ages 15–64	3,992	5,378	34.7%
Dependent Population, <15 and 65+	3,207	3,336	4.0%
Labor Force (LF)	2,514	3,480	38.4%
Out of Labor Force	1,478	1,898	28.4%
Employment	2,407	3,311	37.5%
Key Labor Market Ratios			
Working Age Population, % of total Pop. (2/1)	55.5%	61.7%	
Labor Force Participation, % of WAP (4/2)	63.0%	64.7%	
Employment Rate, % of LF (6/4)	95.7%	95.1%	
Unemployment rate, % of LF ((4–6)/4)	4.3%	4.9%	
Dependency ratio (3/2)	80.3%	62.0%	

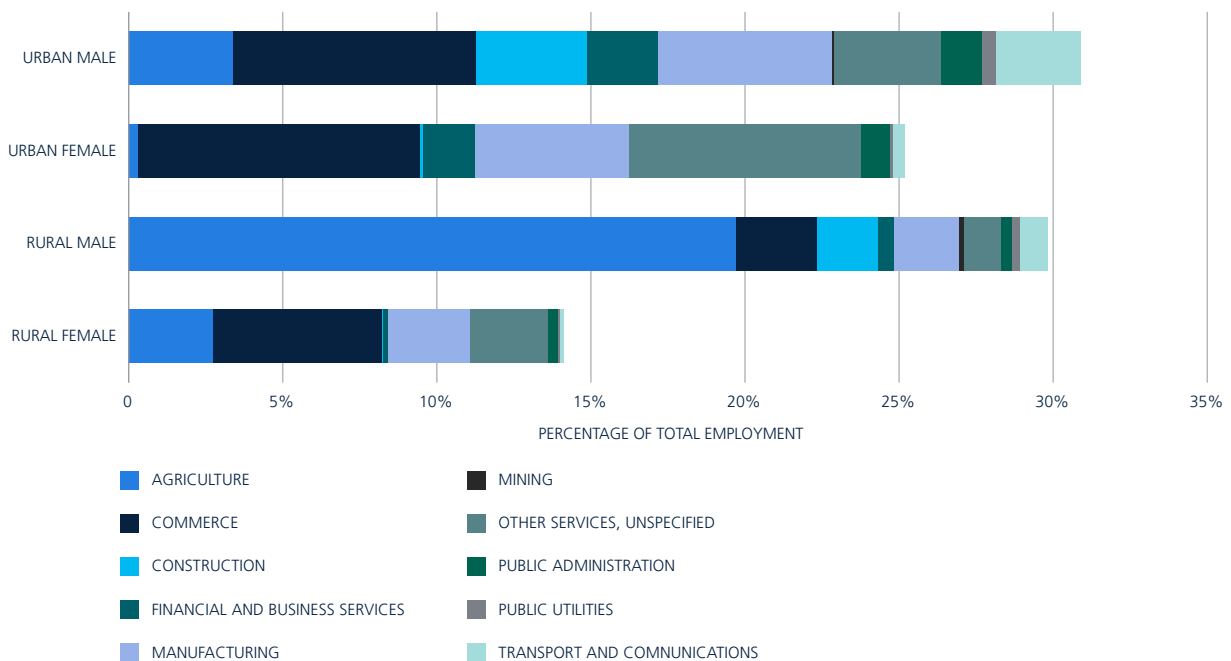
Source: The Jobs Group Jobs Structure Tool, using the EPHPM data.

Figure 5
Distribution of workers by job type, 2016



Source: The Jobs Group Labor Supply Tool, using the EPHPM data.

Figure 6
Distribution of workers by gender, location and sector, 2016



Source: The Jobs Group Labor Supply Tool, using EPHPM data.

Most jobs are now in urban areas. 56 percent of workers are urban and 44 percent rural (Figure 6). But this is not linked to a growth of industrial jobs. Most urban jobs are in services: 30 percent of urban workers are in commerce, 30 percent in other services, and 20 percent in manufacturing. In rural areas, workers are mostly in agriculture (50 percent), commerce (30 percent), and manufacturing (10 percent).

But because of low productivity growth, these transformations have not increased aggregate growth.

A “growth accounting” exercise, which decomposes GDP per capita growth,⁶ is reported in Table 2. Between 2002–2016, growth in GDP per capita averaged 1.43 percent a year. Demographic change (the rise in the working-age population) explained 70 percent of the total, and increased labor force participation another 15 percent, while the falling employment rate contributed a negative two percent. Labor productivity growth explains only 17 percent of total growth (Table 2).

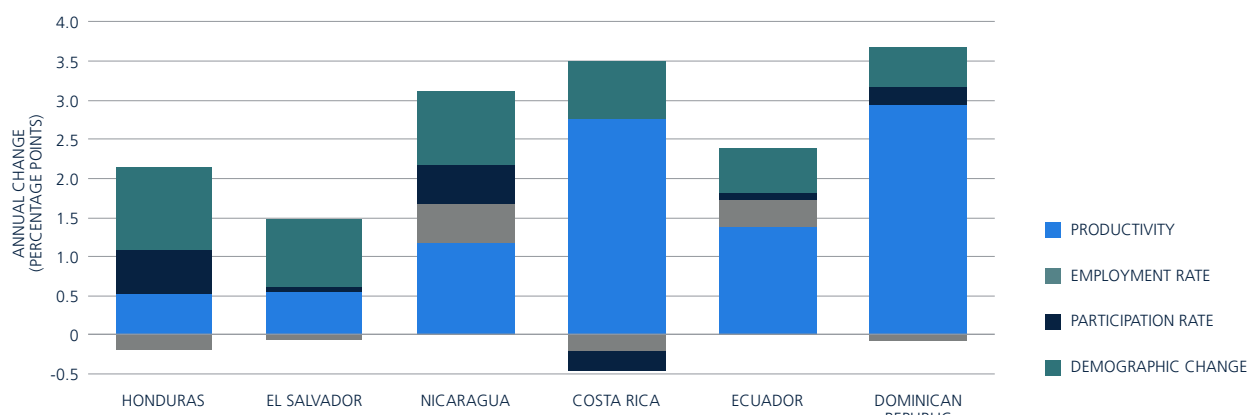
Table 2
Decomposition of growth in per capita value added, Honduras 2002–2016

	2002–2016	2002–2008	2008–2012	2012–2016
Annual growth of GDP per capita (Y)	1.43	2.41	–0.03	1.43
Percent Yearly contribution to growth				
Productivity (Y/E)	0.25	1.68	–1.05	–0.57
Employment Rate (E/LFP)	–0.03	0.20	–0.18	–0.24
Participation Rate (LFP/WAP)	0.21	–0.67	0.20	1.51
Demographic Change (WAP/P)	1.00	1.19	1.01	0.73

Source: The Jobs Group Jobs Structure Tool with EPHPM and BCH National Accounts data.

The contribution of each subcomponent varies across periods, but productivity growth was a strong driver of growth only during 2002–2008. Since then it has been negative. In contrast, other countries in the region have grown more through increasing productivity. Costa Rica and Dominican Republic stand out, but also Nicaragua and Ecuador featured productivity increases that contributed to GDP per capita growth (Figure 7). The relatively low contribution of productivity in Honduras reflects the economy’s failure to generate more productive jobs, leading to many people entering low-productivity jobs by default. This is pattern common to many IDA countries.

Figure 7
Decomposition of growth in selected LAC countries, 2002–2016



Source: The Jobs Group Jobs Structure Tool with EPHPM and BCH National Accounts data.

⁶ By definition, $GDP/capita = Y/P = [Y/E] * [E/LFP] * [LFP/WAP] * [WAP/P]$. Differentiating both sides of this equation yields the following: $\% \Delta [Y/P] = \% \Delta [Y/E] + \% \Delta [E/LFP] + \% \Delta [LFP/WAP] + \% \Delta [WAP/P]$, where Y = GDP, E = Total Employment, LFP = Labor Force Participants, WAP = Working Age Population, and P = Total Population.

The sector-level⁷ distribution of Honduran jobs and production shows important changes over the last 15 years. Most notably, the share of jobs in agriculture fell from 36 percent in 2002 to 26 percent in 2016, while the share of industrial jobs was steady at 22 percent, and the share of jobs in services rose from 41 percent to 52 percent of all jobs. Despite sizable relative reduction in the share of jobs, agriculture maintained its share of GDP at 13 percent, while industry's share of output fell from 29 percent to 25 percent, and services' share of output rose from 58 percent to 62 percent (Table 3). These numbers are consistent with a significant rise in the average productivity of jobs in agriculture, made possible because much of the labor that moved out of the sector was producing very little, reflecting the high level of underemployment in the sector. In contrast, average labor productivity declined in both industry and services in this period. So, the considerable workforce expansion in the services sector did not result in a commensurate expansion in output because many workers entered in low-productivity activities (Annex Figure 2).

Table 3
Shares of total employment and value added across sectors

	2002	2008	2012	2016
Shares of total Employment				
Agriculture	36.4	31.2	35.6	26.2
Industry	22.3	23.3	20.4	22.1
Services etc.	41.2	45.5	44.0	51.7
Total Employment	100.0	100.0	100.0	100.0
Shares of total Value Added				
Agriculture	13.2	11.9	12.9	13.1
Industry	29.2	28.0	25.6	24.7
Services etc.	57.5	60.1	61.4	62.1
Total Value Added	100.0	100.0	100.0	100.0

Source: The Jobs Group Jobs Structure Tool with EPHPM and BCH National Accounts data.

What brings about productivity change in each sector? Labor productivity increases can happen in two ways. The first—known as “within-sector” productivity growth—is productivity growth within the sectors where workers are already deployed. This can be generated by “capital deepening” investments that raise the capital-labor ratio. It can also arise from increases in “total factor productivity” due to technological progress rendering both workers and capital investments more productive. These two elements can be hard to disentangle, because technological progress is often “embodied” in the same new investments, which also raise the capital-labor ratio. The other source of productivity growth—known as “between-sector” productivity growth—is the redeployment of workers from lower productivity to higher productivity sectors. Decomposition of changes in total labor productivity into these separate components offers useful insights into the structure of economic growth. It is described by the formula:

$$\Delta(Y/E) = \sum_i (S_i * \Delta W_i) + \sum_i (\Delta S_i * (W_i - W))$$

where \sum_i denotes the summation over all sectors, S_i refers to the employment share of sector i , W_i refers to the productivity level in sector i , and W refers to the economy-wide average labor productivity level. This equation

⁷ The analysis follows the ISIC classification. Agriculture comprises all activities in the primary sector [agriculture, fishing, livestock, forestry, etc.]; industry includes manufacturing, public utilities, mining and construction; services refers to commerce, transport, communications, financial and business services, personal services, etc.

shows that the change in total labor productivity is equal to the sum of sector productivity changes, weighted by the sector employment ratios (within-sector productivity growth) plus the sum of changes in sector employment ratios, weighted by the sector productivity rates (between-sector productivity growth).⁸

Recent improvement in Honduran labor productivity has resulted mainly from labor reallocations from agriculture into services. Using the productivity decomposition explained above, productivity change in 2002–2016 was mainly due to the agricultural sector, including within-sector changes and the reallocation of workers to the services sector (Table 4). Agriculture experienced technological changes, including the development of new cash crops such as horticulture, which fostered labor productivity growth. In addition, many workers who had low marginal productivity left agriculture for services, where productivity is higher.

The inflow of labor is pulling down productivity within the services sector. Absorbing former farm workers into the services sector is good for the economy, because average productivity in any services subsector is higher than average productivity in agriculture.⁹ As a result, as can be seen in Table 4, the between productivity component is positive for services (except in one period), showing that the inflow of workers into services is a gain for the overall economy. On the other hand, since 2012 the services sector exhibits a negative within productivity component, signaling that the value-added generated by an average service sector worker has started to decline (Figure 8).

Table 4
Decomposition of total labor productivity change, 2002–2016

Annual Average Growth of:	2002–2016		2002–2008		2008–2012		2012–2016	
	%	% of total	%	% of total	%	% of total	%	% of total
Total Labor Productivity	0.25	100%	1.68	100%	-1.05	100%	-0.57	100%
Within-Sector Contribution	-0.39	-153%	0.84	50%	-0.06	6%	-2.6	452%
Agriculture	0.35	137%	0.31	19%	-0.28	27%	1.0	-175%
Industry	-0.24	-94%	0.07	4%	0.02	-2%	-0.9	155%
Services	-0.50	-196%	0.45	27%	0.20	-19%	-2.7	472%
Between-Sector Contribution	0.64	253%	0.85	50%	-0.99	94%	2.0	-352%
Agriculture	0.42	166%	0.55	33%	-0.69	66%	1.4	-236%
Industry	0.00	-1%	0.04	2%	-0.17	16%	0.1	-15%
Services	0.22	89%	0.26	15%	-0.13	13%	0.6	-101%

Source: The Jobs Group Jobs Structure Tool with EPHPM and BCH National Accounts data.

⁸ The mathematics of this decomposition can be summarized as follows. Aggregate GDP [$= Y$] is the sum of sector value-added, $Y_{Ag} + Y_{In} + Y_{Se}$, so labor productivity [Y/E] is a weighted sum of sector productivity levels:

$$Y/E = [Y_{Ag} + Y_{In} + Y_{Se}]/E = S_A * W_A + S_I * W_I + S_S * W_S = \sum_i [S_i * W_i],$$

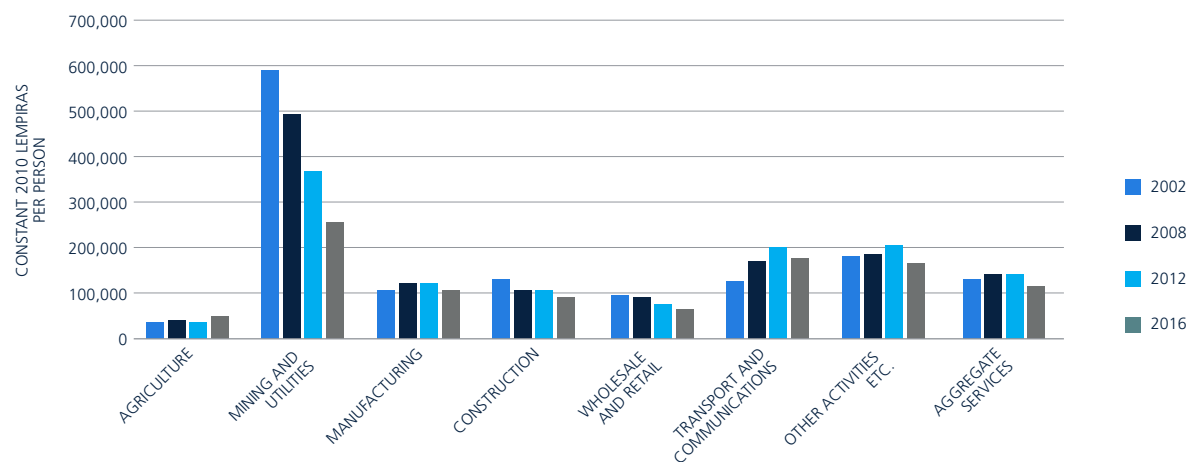
The change in total labor productivity can then be expressed as:

$$\Delta(Y/E) = \sum_i [S_i * \Delta W_i] + \sum_i [W_i * \Delta S_i] = \sum_i [S_i * \Delta W_i] + \sum_i [\Delta S_i * (W_i - W)].$$

The last term on the right, W , refers to the economy-wide average labor productivity level and, by definition, $\sum_i [\Delta S_i * (W_i - W)] = 0$; that is, the sum of changes in employment shares across all sectors must cancel out to zero. In regard to the between-sector effects given by the last term of this equation, note that if the productivity of sector i is greater than the average labor productivity, an increase in the sector i 's employment contribute positively to raising overall productivity levels, while if sector i were less productive than the average, increasing sector i 's employment share diminishes total productivity.

⁹ Industry has higher productivity than agriculture but is outperformed by services. Mining & Utilities displays the highest productivity, but it creates very few jobs so its impact on the total is small.

Figure 8
Value added per worker by sector, Honduras 2002–2016

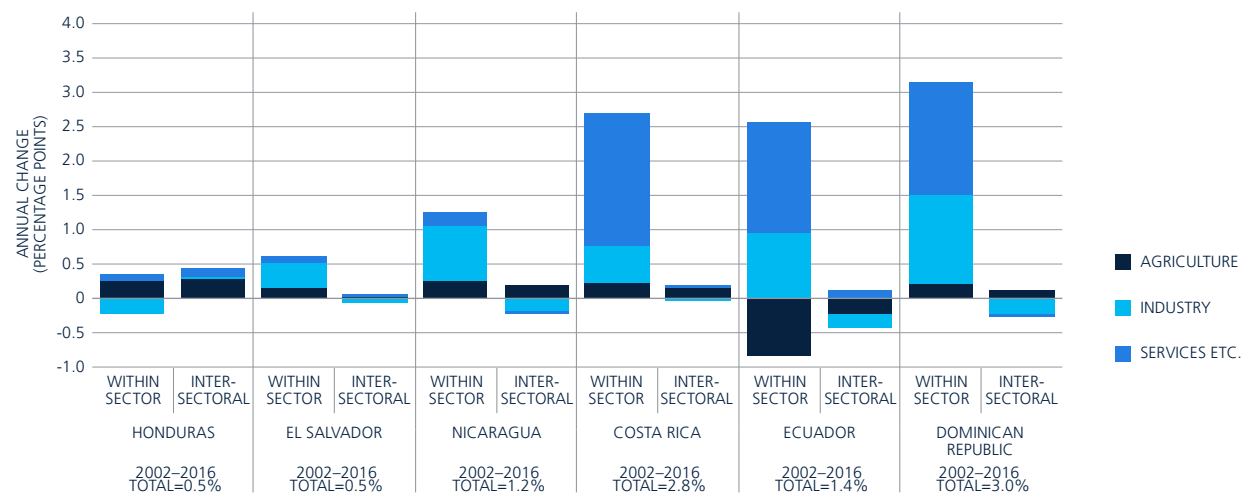


Source: The Jobs Group Jobs Structure Tool with EPHPM and BCH National Accounts data.

Honduran productivity trends compare unfavorably with other countries in the region. Honduras and El Salvador report the lowest growth in overall labor productivity—a 0.5 percentage point annual increase during 2002–2016 (Figure 9). Productivity grew much faster in the Dominican Republic, Costa Rica, and Ecuador (3.0, 2.8, and 1.4 percentage points annually, respectively). Detailed analysis shows that services and industry contributed to these increases. Nicaragua also benefited from productivity enhancements in industry. Honduras is the only country where labor productivity in industry declined.

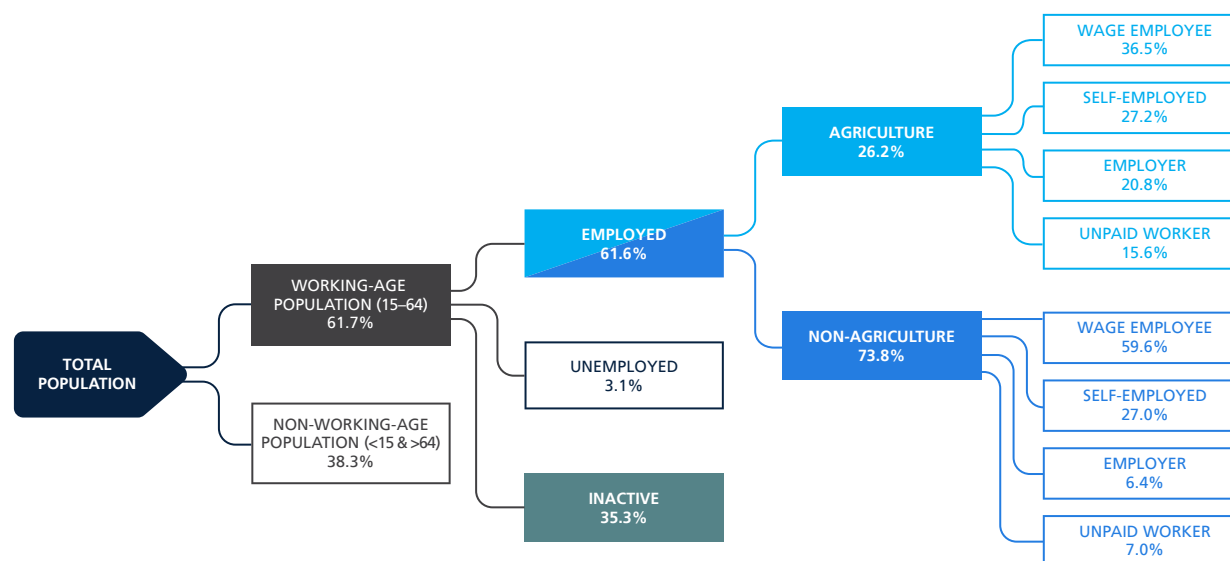
Analysis of the distribution of the population across types of economic activity underlines how far there is to go to improve the quality of the jobs most Hondurans do. In the first place, economic inactivity is a big challenge: in 2016, the working age population (WAP) constituted 62 percent of the population of Honduras, but 35 percent of the WAP was economically inactive, and another three percent was openly

Figure 9
Change in productivity by country and major sectors, 2002–2016



Source: The Jobs Group Jobs Structure Tool with EPHPM and BCH National Accounts data.

Figure 10
Demographic and workforce structure, 2016



Source: Jobs Diagnostic Supply-Side Tool, using EPHM data.

unemployed (Figure 10). As a result, only 38 percent of the total population was working. This broke down across sectors as follows: 10 percent of the total population worked in agriculture, eight percent in industry (including mining), and 20 percent in services. As a proportion of total jobs, services were 52 percent, industry was 22 percent, and agriculture 26 percent. When we focus on the class of job (not the sector where people work) we find that 54 percent of all jobs were wage jobs, 10 percent were employers, 27 percent were self-employed (in agriculture or household enterprises), and nine percent were providing unpaid labor in family businesses.

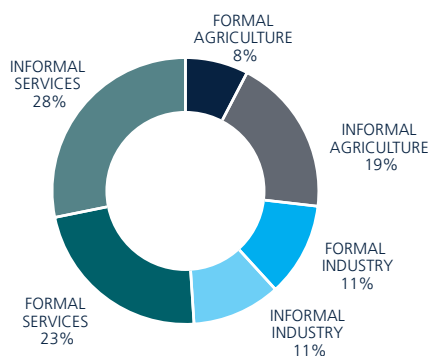
The key to poverty reduction is access to better-paying jobs, which mainly depends on raising labor productivity. Increasing growth and improving jobs outcomes are related elements of a virtuous circle. Economic growth leads to increased productive capacity and better jobs. Workers can either increase incomes in their existing occupations or shift to new occupations with higher-level skills and/or better technology. This results in: (i) improved productivity of various sectors and occupations, (ii) a shift in the structure of employment towards occupations with higher levels of productivity, and (iii) increases in real wages, earnings from self-employment, and earnings from wage employment (Islam, 2004). That's why Honduras needs more and better jobs and why the productivity agenda matters for poverty reduction.

Across all sectors, a high proportion of Honduran jobs (including wage jobs) remains informal, exhibiting low productivity and poor job quality. The concept of productive informality defines informal workers as those in low-productivity, unskilled, marginal jobs (Gasparini and Tornarolli, 2009).¹⁰ It includes: (i) self-employed people without a tertiary or superior education degree, (ii) salaried workers in private firms with five or less permanent workers, and (iii) zero-income workers.¹¹ Thus defined, informal workers include those who work in small-scale firms, which will normally face difficulties mobilizing capital or accessing scale economies; self-employed people with limited human capital; and unpaid family labor. Analyzing the distribution of jobs using this definition of informality helps to shed light on Honduras' problem of low productivity growth.

¹⁰ An alternative measure of informality is the "legal" or "social protection" definition, based on compliance with labor regulations and the coverage of social security benefits.

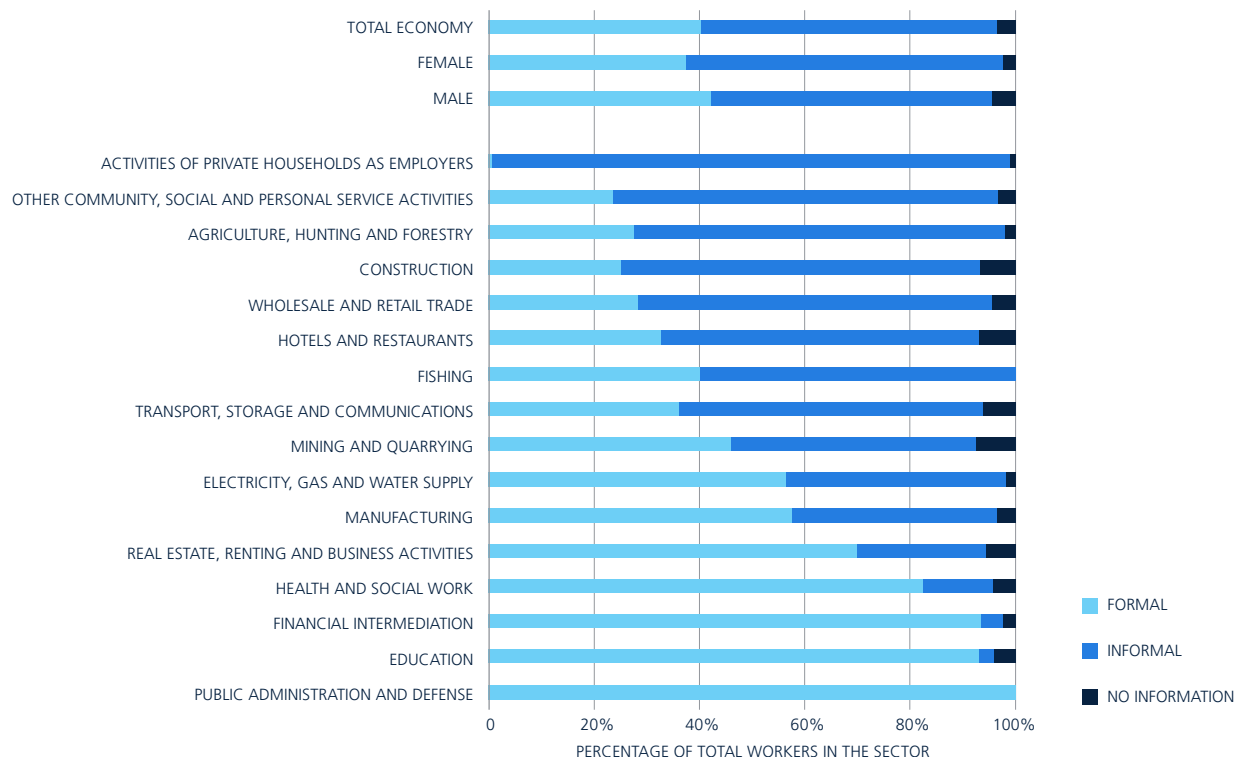
¹¹ Formal workers are i) Entrepreneurs or Employers, ii) Salaried workers in large private firms [six or more workers], iii) Salaried workers in the public sector, and iv) Skilled self-employed.

Figure 11
Distribution of informal and formal workers across major sectors, 2016



Source: Authors, with data from EPHM 2016, SEDLAC standardization.

Figure 12
Prevalence of informality by sector of economic activity, 2016



Source: World Bank calculations with 2016 EPHM data, SEDLAC standardization.

Using this definition, in 2016 56 percent of jobs in Honduras were informal, and only 40 percent were formal.¹² This proportion is smaller in some comparator countries: Panama (42.9 percent), Mexico (46 percent), El Salvador (56.9 percent), and the Dominican Republic (49.3 percent). In others, such as Ecuador and Peru, the figure is bigger (62 percent). There are informal and formal workers in all sectors in Honduras. In eight of 16 sectors, at least 58 percent of workers are categorized as informal (Figure 12). Community, social and

¹² Four percent of salaried workers could not be classified due to missing information on firm size. If temporary workers without contract are considered as informal, regardless firm size, the proportion of informal workers rises to 58 percent.

personal services, agriculture, construction, and wholesale and retail trade report the highest shares of productive informality. But there is also a non-negligible share of informality in sectors like real estate and business services, and health and social work. Nineteen percent of all informal workers are in agriculture, 28 percent are in services and 11 percent are in industry (Figure 11).

This dualism—the split between formal and informal work within each economic activity—leads to income inequality for multiple reasons. Earnings for a formal worker are between two to six times higher than for an informal worker (Table 5). The variation in earnings across economic activities is much lower (by more than half¹³) among informal workers than among formal workers. Average earnings in informality are consistently low across economic activities. In contrast, there is more variation in earnings within the formal sector, likely reflecting the variation in capital intensity and other factors affecting labor productivity; the outcome of wage bargaining with unions, and educational wage premia and specialization, among other things. But within any sector of economic activity, the earnings distribution is wider for informal work than for formal work (Figure 15). This reflects the fact that formal jobs have higher compliance with labor regulations (the minimum wage, for example).

Table 5
Comparison of earnings by informality condition within each sector, 2016

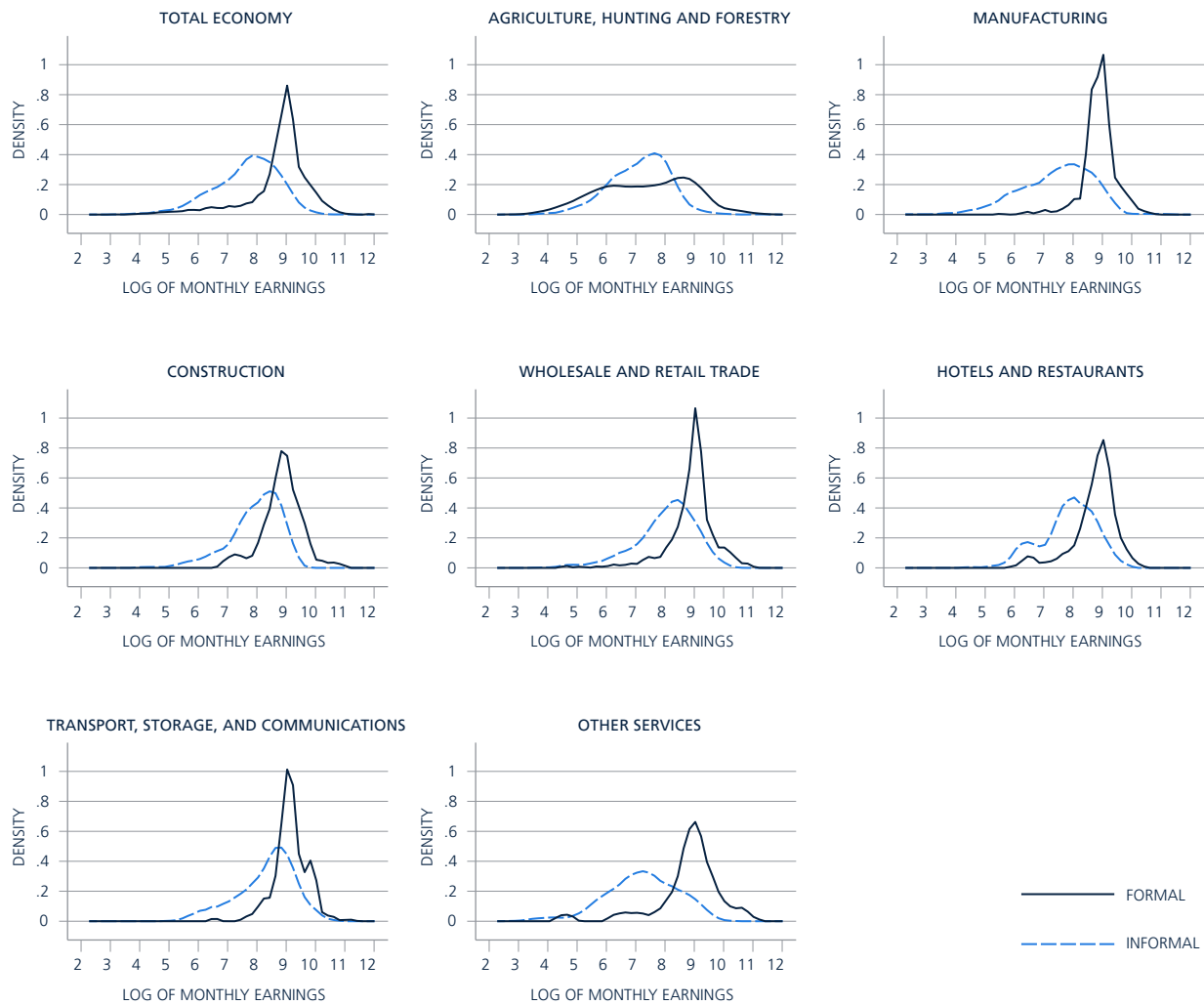
Sector	Share of total employment	Share of sector formal employment in total employment	Share of sector informal employment in total employment	Average monthly earnings in the sector	Average monthly earnings if formal (Lempiras)	Average monthly earnings if informal (Lempiras)
Agriculture, hunting and forestry	26%	7%	18%	2,662	3,457	1,383
Wholesale and retail trade	21%	6%	14%	6,241	9,257	3,632
Manufacturing	16%	9%	6%	5,250	8,239	2,425
Construction	6%	1%	4%	6,411	8,516	3,713
Other community, social and personal service activities	5%	1%	4%	6,109	9,929	2,289
Hotels and restaurants	5%	2%	3%	5,267	7,550	2,884
Education	4%	4%	0%	7,080	12,341	3,076
Transport, storage and communications	4%	1%	2%	8,481	11,016	5,795
Real estate, renting and business activities	3%	2%	1%	7,792	10,095	4,620
Public administration and defense	3%	3%	0%	12,229	12,229	
Activities of private households as employers	3%	0%	3%	4,314	5,400	3,227
Health and social work	2%	2%	0%	8,119	10,990	5,248
Financial intermediation	1%	1%	0%	9,406	12,253	7,048
Electricity, gas, and water supply	1%	0%	0%	6,488	14,013	2,299
Fishing	1%	0%	0%	6,544	8,876	4,211
Mining and quarrying	0%	0%	0%	6,148	10,357	4,488
Total	100%	40.4%	56.2%	6,573	9,657	3,756

Source: World Bank with data from the EPHPM 2016, SEDLAC standardization.

Note: The share of employment by formality condition do not sum up to 100% because the category “without information” is not shown. This category comprises 3% of total employment in 2016.

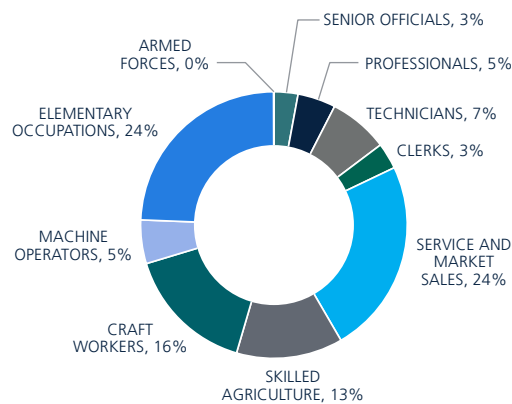
¹³ Measured as the standard deviation of the mean earnings estimates shown in columns 5 and 6 of Table 5.

Figure 13
Density distributions of earnings by sector and category of productive informality



Source: World Bank calculations with 2016 EPHM data, SEDLAC standardization.

Figure 14
Occupational distribution of jobs, 2016



Source: Jobs Group Labor Supply Tool with EPHM data.

Comparing the earnings distribution between formal and informal workers within a given sector helps throw light on the degree of labor market integration. In sectors marked by labor mobility between formal and informal jobs, the wage distributions will tend to be similar for each class of job. In these sectors, the skills composition for informal and formal firms may be similar so workers can move between them. This can be observed, for example, in agriculture and construction (Figure 13). In contrast, manufacturing and other services report different earnings distributions between informal and formal work, which likely indicates differences in skills composition and more binding regulatory constraints (such as the minimum wage) in the formal firms, making labor mobility between the sectors more difficult.

The main point from this analysis is that low labor productivity implies the predominance of low-quality jobs. Most workers in Honduras are stuck in elementary occupations and middle-skill activities. Around 24 percent of Honduran workers are in elementary occupations (in services, jobs like street vendors, domestic helpers, shoe-cleaners, building caretakers, messengers, garbage collectors and vehicle cleaners; in agriculture, farm laborer; in industry, jobs in maintenance, basic laborers, and handlers) (Figure 14, Figure 12). Another 24 percent are in services and market sales, 16 percent in crafts and 13 percent in skilled agriculture. This is the result of three factors: i) most available jobs are in low-productivity activities, ii) most workers are low and mid-skilled, and iii) labor market segmentation impedes the redistribution of workers across sectors and occupations. The challenge which emerges from this analysis is the need to increase productivity and earnings of workers in all sectors (agriculture, commerce, manufacturing, and other services¹⁴). This implies promoting structural transformations within each sector, moving workers away from traditional activities and towards better capitalized, more productive jobs with stronger market linkages.

There is a consistent hierarchy of earnings across classes of job. Formal wage workers earn, on average, twice as much as a non-farm self-employed person and almost six times more than a person self-employed in agriculture (Table 6). Non-farm self-employment pays higher than informal wage jobs, except for women (Annex Figure 3).¹⁵

Table 6
Average individual labor income and number of workers by job class, 2016

Job class	Average individual labor income	Number of workers
Self-employed in agriculture	1,534	238,782
Self-employed in non-agriculture	4,068	662,722
Informal wage worker	3,409	667,861
Formal wage worker	8,694	1,314,981
Total	5,813	2,884,346

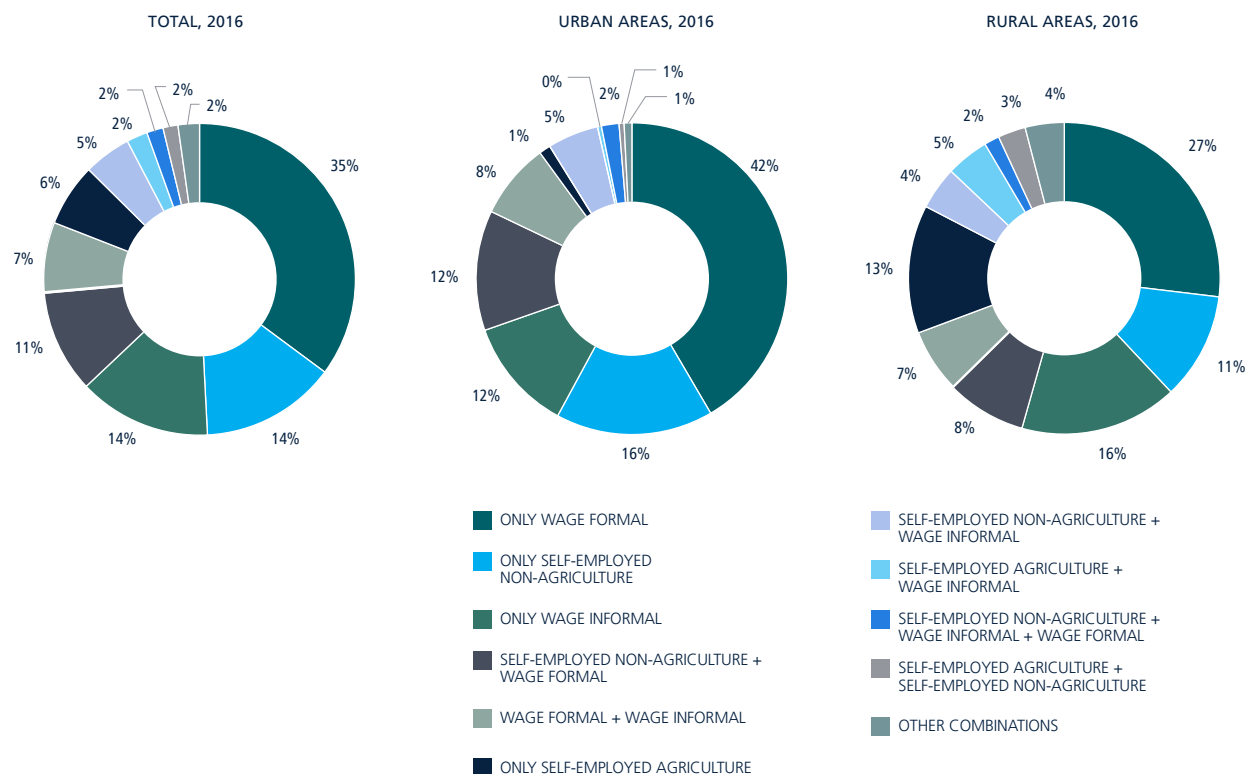
Source: Authors, using with EPHMP 2016, SEDLAC standardization.

Note: Employers are merged with wage workers in the corresponding classes of firm (formal, informal). Unpaid workers and wage workers who could not be classified by category of informality are excluded from these calculations.

¹⁴ Services excluding commerce, transport, and communications, financial and business services, and public administration.

¹⁵ These calculations exclude non-labor income [capital income, public transfers, remittance, pensions, etc.] and exclude labor income earned by members outside of the working-age range of 15–65.

Figure 15
Distribution of households by their combination of different job classes, 2016



Source: Authors with data from EPHPM 2016, SEDLAC standardization.

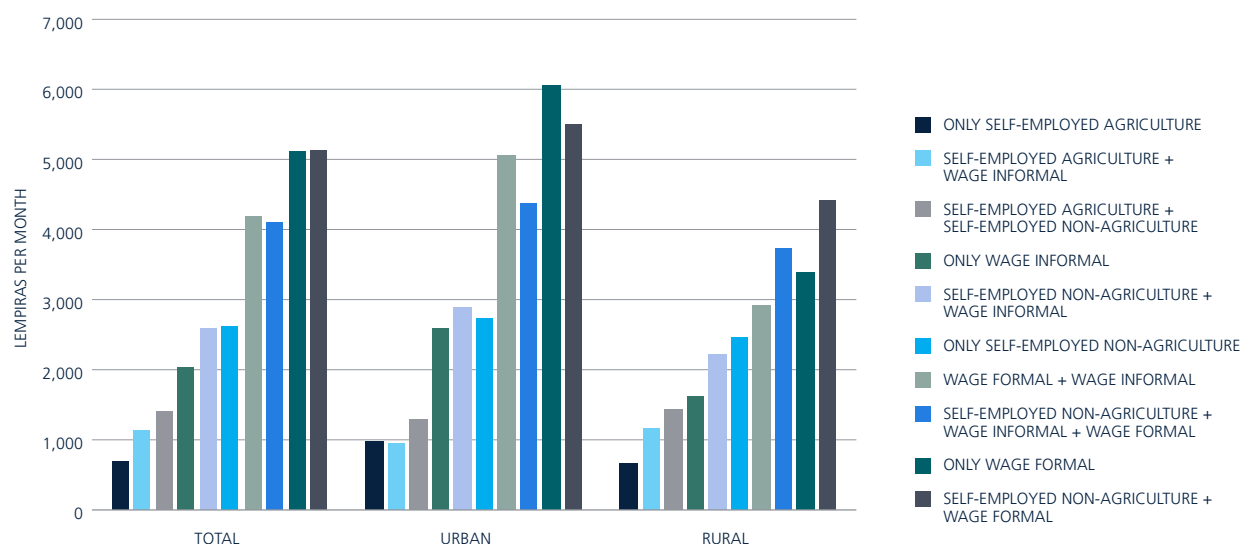
Households frequently assign members across different job classes, which tends to improve per capita income.¹⁶ For example, when rural households shift part of their land and labor into commercial crops for the market, they tend to become less poor. Similarly, households that sell wage labor to someone else’s business, even when it is informal, are usually better-off than those that do not. An analysis of different permutations of job types among household members¹⁷ shows that 35 percent of households allocate labor only to formal wage jobs (42 percent of urban and 27 percent of rural households). Fourteen percent of households assign all their labor to self-employment in non-agriculture (non-farm household enterprises), and another 14 percent dedicate all labor to informal wages. But 31 percent of households combine different sorts of jobs; the most common combination is between self-employment in agriculture and formal wage work (11 percent) (Figure 15).

Some combinations are better household income enhancers than others. We aggregated the labor income earned by all working-age household members in their main occupation and divided by the number of working-age members to estimate the average labor earnings of the household. In urban areas, households where labor income earners are only employed in formal wage work do better than any other (L.6,062 per

¹⁶ Our focus here is on combinations of jobs within households and we analyze only the main occupation of each person. This differs from studies that focus on the combinations of main and secondary activities of individual workers. Following SEDLAC, no one who describes themselves as an employer is classified as informal. Employers are classed together with formal wage workers and represent 26% of the class. The category of self-employment is limited to those who work only with family members and do not hire other people.

¹⁷ We classified the main occupation of each household member in working age into one of the four categories of job class [self-employed in agriculture, self-employed in non-agriculture, informal wage, and formal wage]. Then we grouped households by all the possible permutations of job classes within the household. For example “only wage formal” means that at least one working-age household member is in formal wage work [employer or salaried] and other household members do not engage in other job classes; “self-employed in non-agriculture + wage informal” means that at least one member is self-employed in non-agriculture, at least another member is in informal wage work, and no other member is in the remaining job classes.

Figure 16
Average household labor income across permutations of job classes, 2016



Source: Authors with data from EPHM 2016, SEDLAC standardization

month). In rural areas, households combining self-employment in non-agriculture plus formal wage work have the highest average labor earnings (L.4,400 per month). At the other extreme, households doing only self-employment in agriculture; and those combining the latter with informal wage work perform the worst (around L.1,000 per month) (Figure 16).

Differences in average labor income derive both from the jobs that household members are doing and from the share of labor resources (people's time) put to use.¹⁸ Households where members are dedicated only to self-employment in agriculture use the lowest proportion of household members as labor earners (39 percent). Low labor utilization in rural farming households is a well-known phenomenon, linked to constraints on the amount of land farmed and the limitations of rain-fed agriculture. In second place are households where members are dedicated only to formal wage jobs, which use 56 percent of their members (Figure 17).

Labor intensity¹⁹ is an important driver of increased average earnings, both in rural and urban areas.²⁰ Increasing the number of labor contributors raises per capita incomes. Overall, households that use less than a quarter of their adult labor supply for remunerated work have an average per capita labor income of around L.1,026 per month, higher in rural than in urban settings. Increasing this into the 25 to 49 percent range doubles rural earnings and triples urban earnings. Increasing it above 75 percent raises average labor earnings to L.4,222 in rural areas and to L.6,770 in urban areas. However, only 27 percent of rural households use over 75 percent of their labor supply for paid work, while in urban areas this increases to 36 percent. The result is likely more pronounced in urban areas (Figure 18) because the additional worker often goes to a wage job, which brings higher earnings. There are more opportunities to intensify the use of labor where diverse types of jobs are available. Households whose members all work in one type of job have the lowest shares of working-age members in a job (Annex Table 2). So, increasing households' labor intensity emerges as an important policy goal.

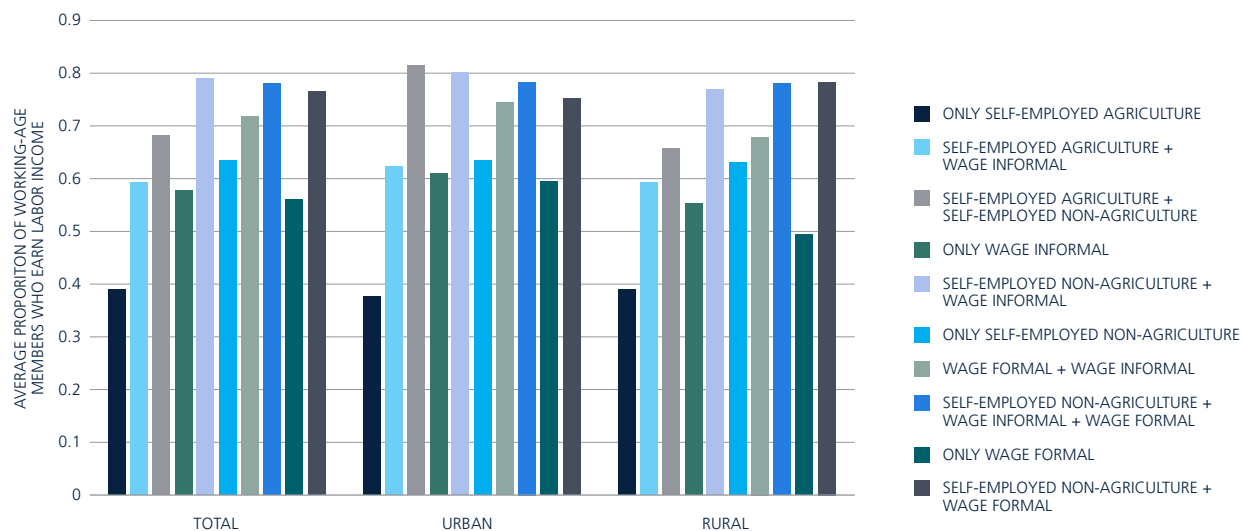
However, some types of diversification appear unpromising. For example, diversification between agricultural self-employment and non-agricultural self-employment yields relatively low average labor

¹⁸ How many members engage in labor also depends on non-labor income streams, such as remittances or pensions, and on social and cultural factors.

¹⁹ Labor intensity is the relative proportion of labor [compared to capital] used in a process. Its inverse is capital intensity.

²⁰ This includes labor income from main and secondary occupation.

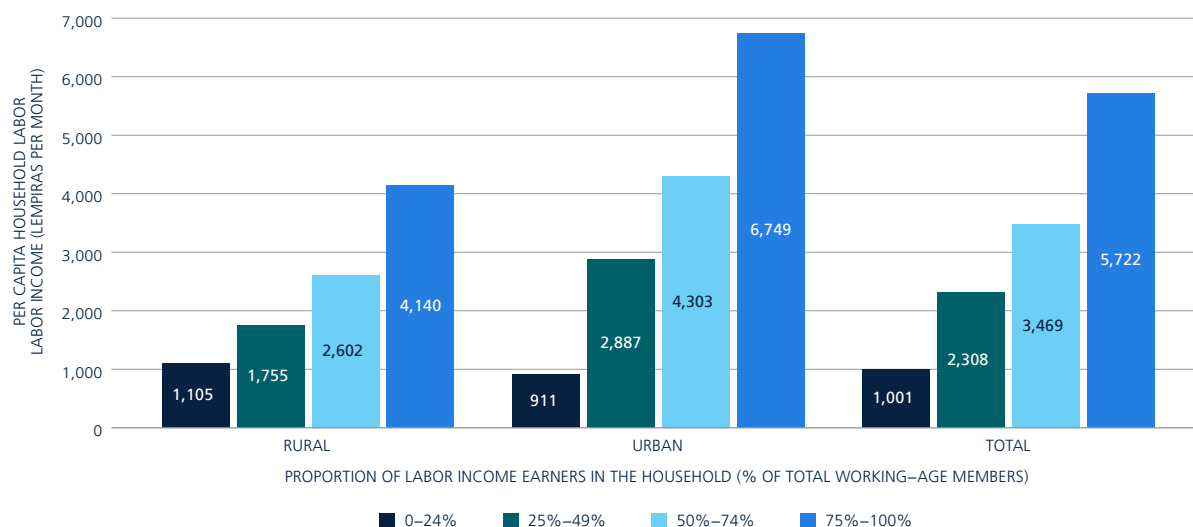
Figure 17
Labor intensity across permutations of job classes, 2016



Source: Authors with data from EPHPM 2016, SEDLAC standardization.

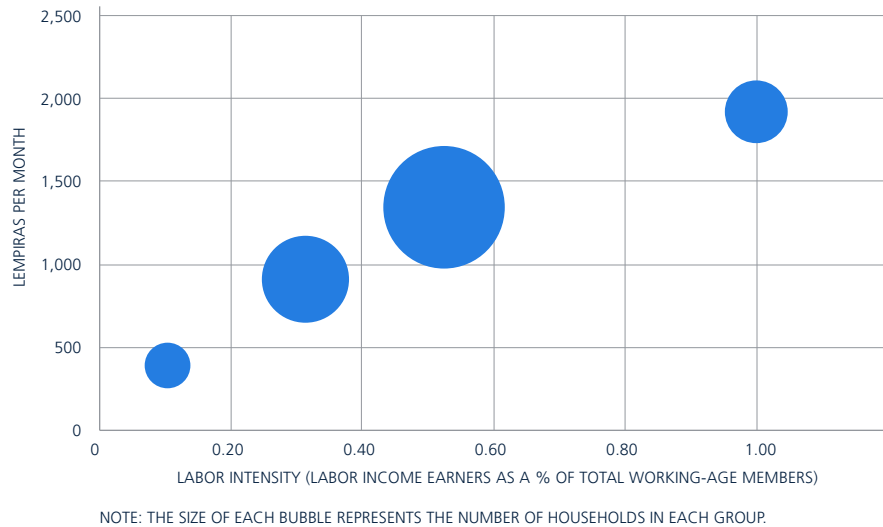
earnings (L.1,414 per month), still below the rural moderate poverty line (L.1,668). Perhaps unsurprisingly, only three percent of rural households diversify work in this manner. Combining farming with informal wage jobs is somewhat more common (4.5 percent) but brings even lower per capita labor earnings (L.1,152). Rural households do better when they combine farming with formal wage work (L.2,479); or move out of farming altogether, for example into formal wage work (L.3,390) or non-agricultural self-employment (L.2,445). Twenty-seven percent and 11 percent of rural households, respectively, have left farm work in this manner. These comparisons suggest the appropriateness of policy interventions to support income growth for poor households, even when it is not feasible for them to get formal sector wage jobs. The need for stronger market

Figure 18
Relationship between labor intensity and per capita labor income in the household



Source: Authors, using data from EPHPM 2016, SEDLAC standardization.

Figure 19
Labor earnings of undiversified farming households in relation to labor intensity



Source: Authors with data from EPHPM 2016, SEDLAC standardization.

linkages, which increase the possibility of capitalization to increase labor productivity, is a common theme for all of these transformations.

Finally, poor rural households can also raise earnings by increasing labor intensity without diversifying income sources. Average earnings within agricultural self-employment vary considerably depending on labor intensity. Farming households that employ more of their members' labor in agriculture do much better than those whose labor is underemployed—the classic syndrome of a subsistence farming household. Undiversified farming households are those which use all their labor in self-employment agriculture. Households using less than half their working-age members as labor average per capita labor income of L.801 per month. In contrast, undiversified farming households using more than half their potential resources as labor have average per capita earnings of L.1,463 per month (Figure 19).



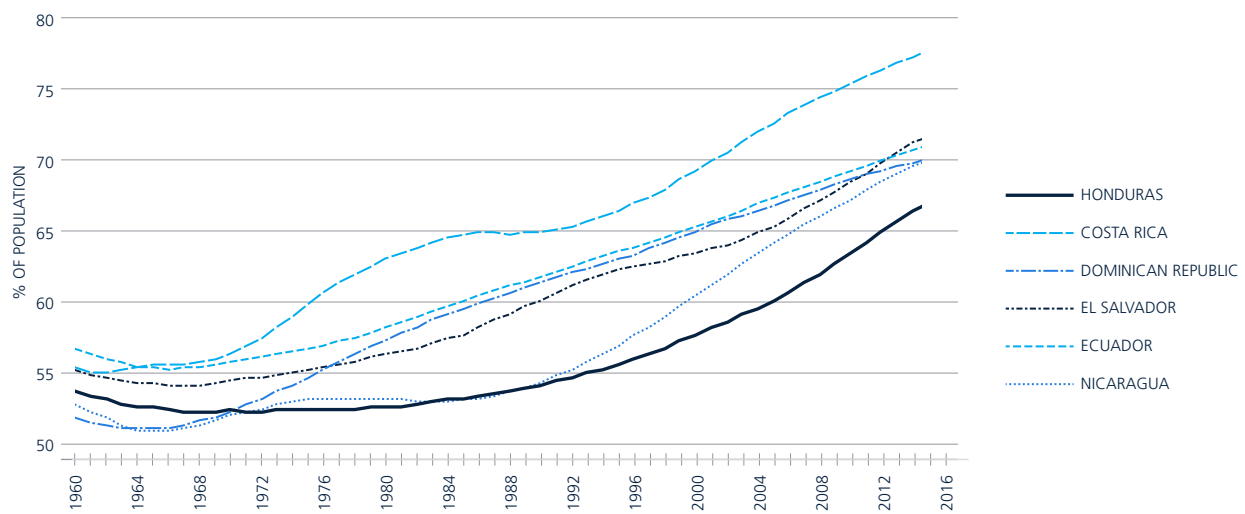
Potato cooperative, Intibuca

2. LABOR SUPPLY CHALLENGES

Honduras is at a stage of demographic transition where the share of the working-age population (WAP) is rising rapidly, and the dependency ratio is falling. The demographic transformation has come later than in other countries in Latin America, but now offers opportunities for poverty reduction. Since the mid-1980s, the share of the WAP has risen sharply, to 67 percent, but is still below neighboring countries (Figure 20). A large decline in fertility from 7.5 children per woman in 1960 to 2.5 in 2015 is a major driver of this advantageous demographic trend. This is explained by both by an increase in the urban share of the population, and where fertility tends to be lower, but also by a more recent decline in fertility in rural areas. The declining dependency ratio creates an opportunity to increase the working population and accelerate poverty reduction. The dependency ratio is now approaching regional comparators such as El Salvador and the Dominican Republic. The ratio of dependents to the WAP fell from 0.8 in 1994 to 0.48 in 2016 (Figure 21). This means that roughly two working-age individuals can support each dependent. But the ratio of employed people to dependents is less positive: for every two employed individuals, there are 1.5 dependents. So, the challenge of ensuring that working-age people have jobs is key to “cashing in” the demographic dividend.

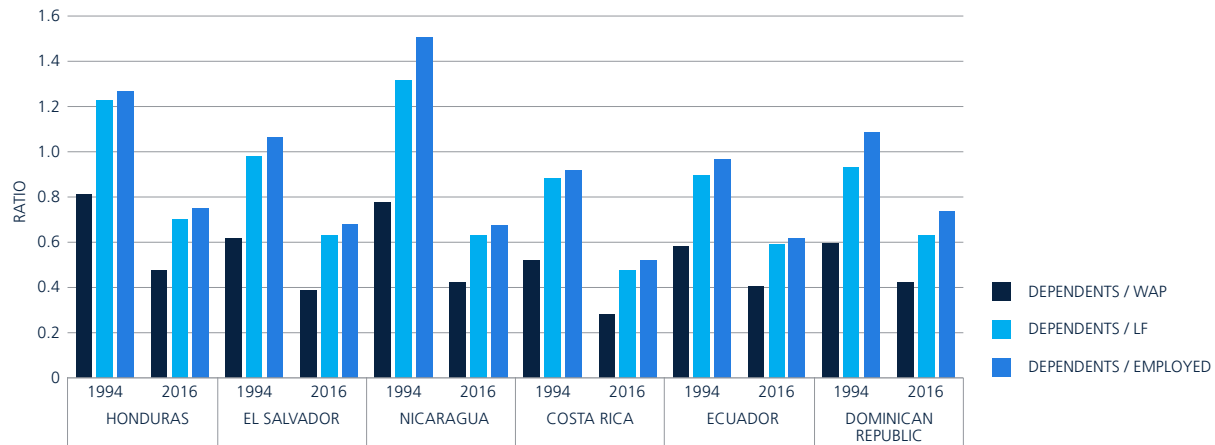
Honduras has done well with increasing educational attainment over the last 20 years, especially for girls. By 2016, only a small fraction of youth (2.4 percent) had no education and 10 percent had dropped out of school before completing the primary level. This is less than half the primary-level dropouts among the adult population (23 percent) (Figure 22). Improved attainment in education is more pronounced among the rural youth, due to larger historical gaps in education. In ten years, the proportion of rural youth who at least enrolled in secondary education doubled. In urban areas, the proportion of youth in post-secondary education has increased (Figure 23). This improvement in attainment in education has not discriminated against women

Figure 20
Share of working-age population in total population



Source: Jobs Group Demographic Tool, using WDI data.

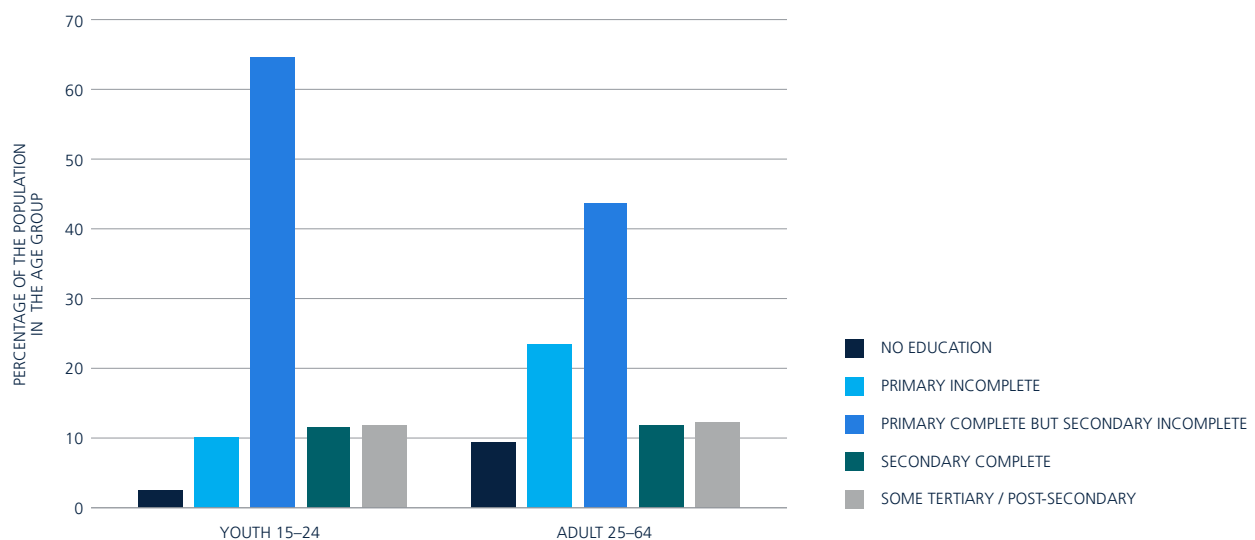
Figure 21
Dependency ratios



Source: Jobs Group Demographic Tool, using WDI data.

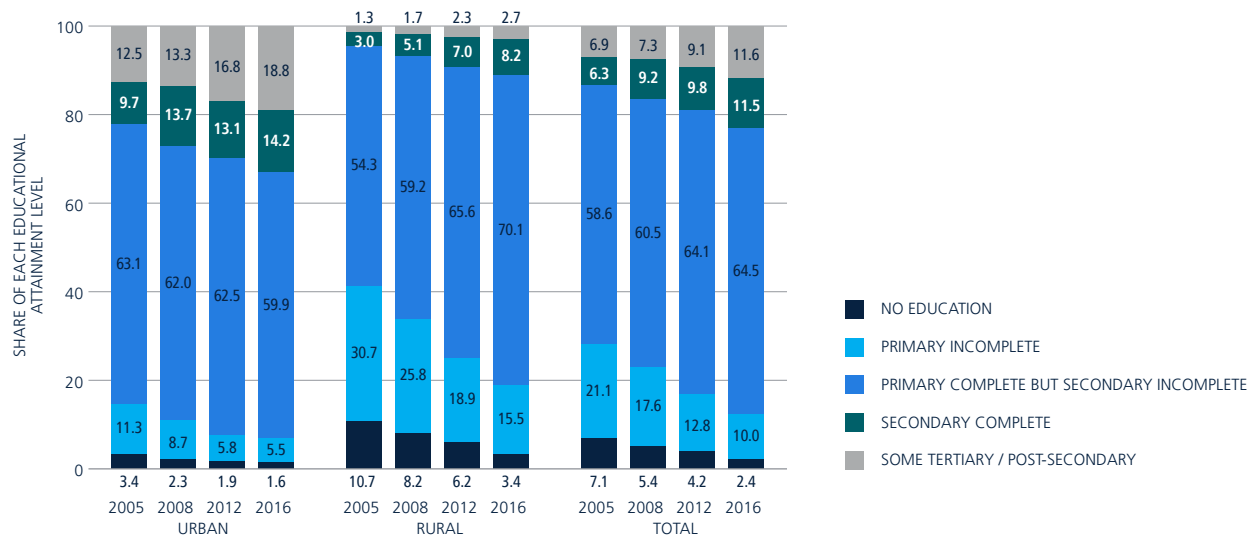
as male and female youth have both improved educational attainment. In fact, by 2016 the share of young women with post-secondary/tertiary education was slightly higher than that of men (12.4 and 10.8 percent respectively). In general, women are better educated than young men, as a larger share of men has not gone beyond incomplete primary (14.1 percent, compared to 10.9 percent of young women) (Figure 24). This is not to say that no challenge remains in the sector. There is a need to increase secondary education coverage in rural area, and to continue strengthening educational governance and the quality of services. School closures due to strike activity and teacher absenteeism have been greatly reduced and test scores have been improving, but scores remain low compared to international standards. But, notwithstanding ongoing serious challenges, this generation of young Hondurans is considerably better educated than their parents.

Figure 22
Educational attainment of youth and adults, 2016



Source: World Bank calculations using Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHPM data.

Figure 23
Youth (15–24) educational attainment by location (urban and rural) over time

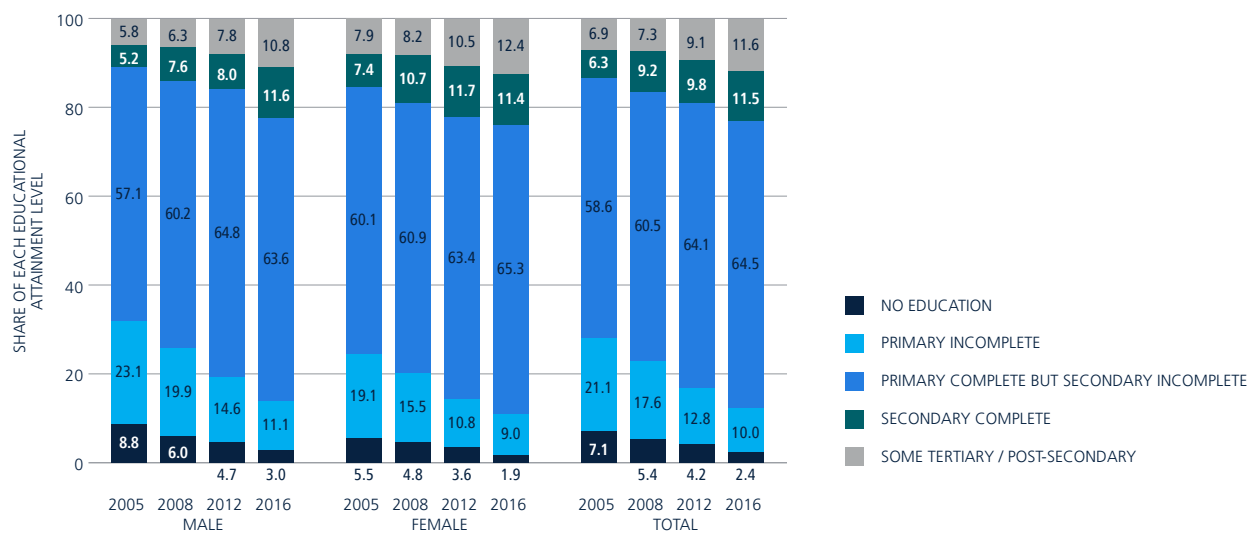


Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHM data.

Women are achieving higher levels of education, but that has not translated into gender equality in job opportunities. Men dominate wage work and jobs as employers, whereas the distribution is more equal among self-employed people and among unpaid people. Only 47.7 percent of employed women have wage employment, while the proportion is 57.4 percent for men. Moreover, men dominate in some sectors; in agriculture, construction, mining, public utilities, transport and communication, 80 percent of workers are men (Figure 6).

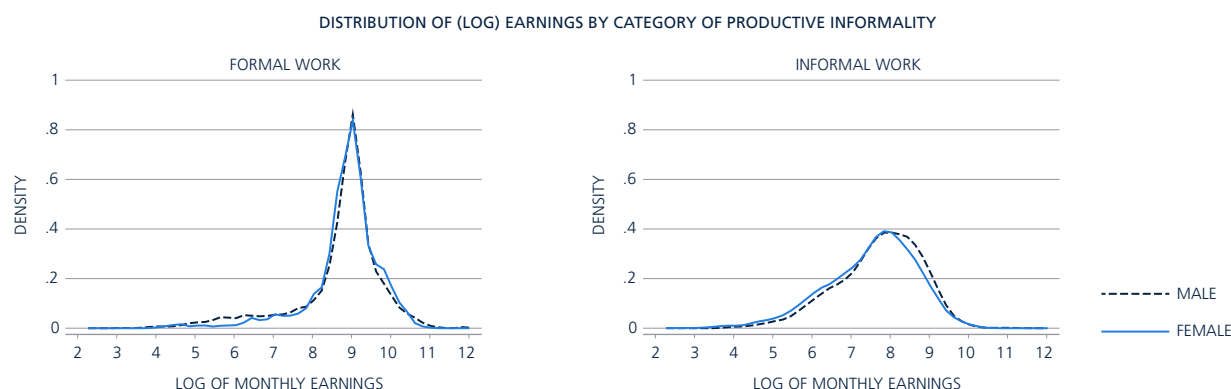
The gender pay gap in Honduras varies widely across locations and age groups. The typical urban male adult earns 16 percent more than his female counterpart. But interestingly, young female workers earn 12 percent more than young male workers, which is consistent with the hypothesis that younger women may prefer queuing

Figure 24
Youth (15–24) educational attainment by gender



Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHM data.

Figure 25
Gender gap in earnings for formal and informal work, 2016



Source: World Bank calculations with EPHM 2016 data, SEDLAC standardization.

for better jobs, while young men are more prone to take what is most easily available²¹ (Table 7). Similarly, in formal work (productive definition), female workers earn slightly higher than men, whereas in the informal sector male workers tend to earn more than women, as shown in corresponding kernel distributions (Figure 25).

Table 7
Honduras—Gender pay gap by region and age

Urban	Rural	Youth	Adult
-16%	-9%	+12%	-14%

Source: EPHM 2016. Youth = 15 to 24 years of age.

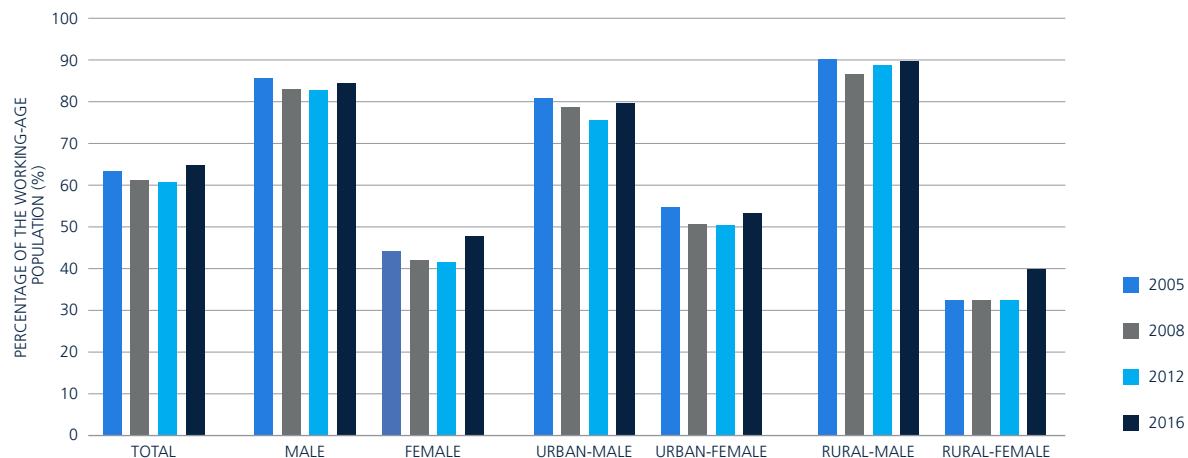
Insufficient good jobs for women may lead many to stay out of the labor force, particularly in rural areas. Over the last ten years, the overall labor force participation rate (LFP)—the share of the WAP seeking work—has been fixed at about 65 percent of the WAP. This average conceals very different participation rates for men (at 85 percent) and women (47 percent). The overall gender gap of about 37 percentage points, little changed over the last ten years, is considerably higher in the rural areas. Labor force participation of rural women is 14 percentage points lower than their urban counterparts (Figure 26). In contrast, male labor force participation rates in rural areas are 10 percentage points higher than in the urban areas, suggesting a strong gender bias in workforce participation in rural Honduras. This may be because most agricultural jobs are held by men, the sector in which half (51 percent) of rural workers work, and because of few rural job opportunities outside of agriculture.

Other factors contributing to low female LFP include gender bias in intra-household work, where women act as caregivers. The absence of childcare facilities reinforces this. Risk factors linked to working, such as vulnerability to crime and violence in travel to work or in some work settings, is another relevant factor. Some systematic undermeasurement of female economic activity in labor force surveys is also possible.²² Nevertheless, although it remains low, female LFP increased by 7.7 percentage points between 2005 and 2016 (Sousa and Muller, 2018).

²¹ These averages are computed only for people who report earnings.

²² A recent qualitative study found evidence of undermeasurement of employment among rural women. This is because the employment status in the EPHM is self-reported and some women do not perceive their work as “a job,” oftentimes because it is infrequent (once per week, or only during summer), because they deem the economic activity as household work (feeding hens), or because they do not see it as a real job in comparison to the jobs their husbands hold [See Liliana D. Sousa. 2018. “La actividad económica de la mujer en las zonas Rurales de Honduras.” Banco Mundial].

Figure 26
Labor force participation rates by gender and location

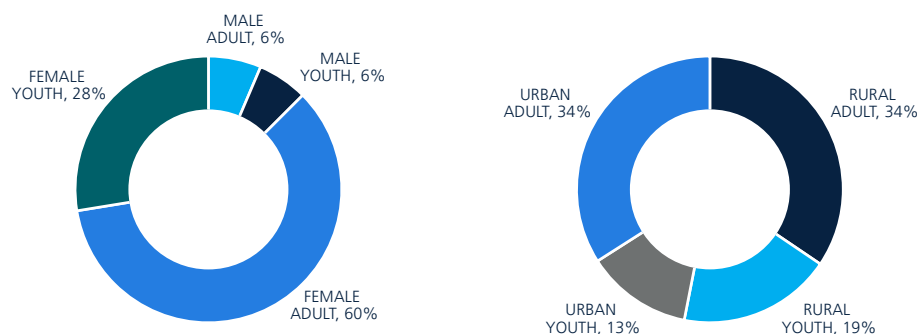


Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHPM data.

Low female LFP implies a large loss for the economy. There are two gender gaps in the labor market that can affect income negatively: gaps between men and women in participation in entrepreneurship, and gaps in LFP. It is estimated that in Honduras, these gaps account in total for an income loss of around 22 percent, considerably higher than the LAC average of 17 percent. The gap in LFP is the most important element of the total (Cuberes and Teignier, 2016).

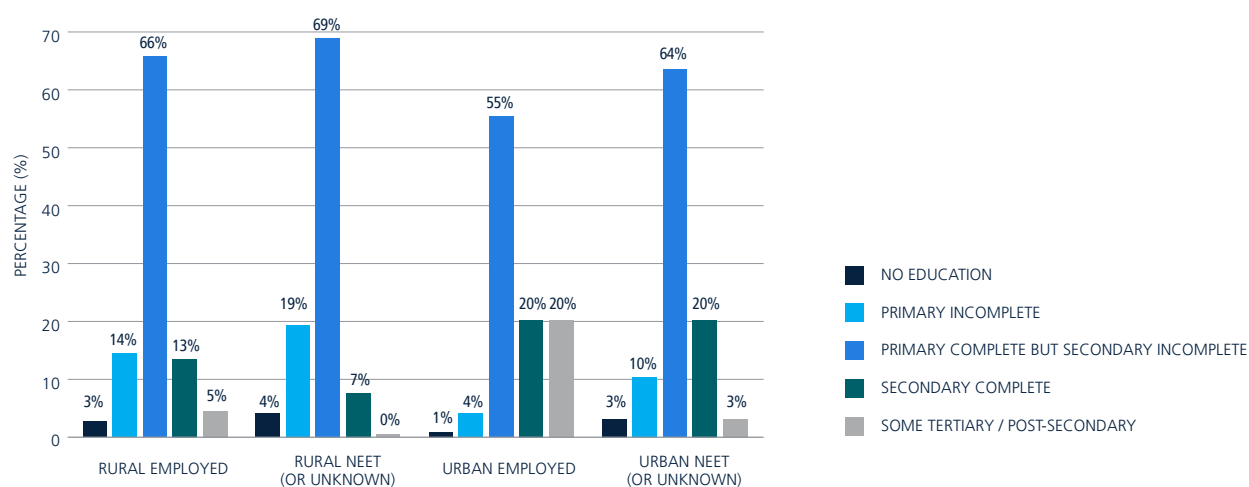
Low LFP plays out in the form of “NEETs”—people who are Not in Employment, Education, or Training. Of the total Honduran WAP, 25 percent are NEETs, with approximately equal incidence among youth (24 percent) and adults (26 percent). However, there is a stark gender bias: 87 percent of the NEET population is female (Figure 27). Some 41 percent of working-age women are NEETs, compared to only seven percent of men. A third of female NEETs are young (under 25 years old). Female NEETs are distributed between rural and urban areas, but the phenomenon is more acute in rural areas, where 52 percent of women are NEET compared with 33 percent in cities. A regional study of youth NEETs estimated that in 2010, NEETs accounted for one in five youth in LAC. Among the 15 countries included in the study, Honduras had the highest rate of youth NEETs (Hoyos, Rogers et al. 2016).

Figure 27
The NEET population in Honduras



Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHPM data.

Figure 28
Educational attainment of young female NEET compared to employed young women, 2016



Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and IZD2-standardized EPHM data.

Low educational attainment does not seem the main factor causing more women than men to be NEETs.

Educational attainment of employed young women and those who are NEET does not differ dramatically. Most women in each group have completed primary and some secondary education, and the share of NEETs with such education is actually higher than for employed women. This is the case in both rural and urban areas²³ (Figure 28). This suggests that the female NEET phenomenon may be linked to the lack of enough jobs suitable for women with primary and lower secondary education, coupled with other gender related constraints to women's LFP.

So, lack of better jobs appears to be an important factor determining female LFP. Girls are now doing better at school than boys, and the educational attainment of young female NEETs (aged 15-24) is higher than for young women who work or study. For example, in rural areas, 66 percent of women who are working have completed their primary education or have some secondary education, but the share for NEETs is higher at 69 percent. Likewise, in urban areas the corresponding figure is 55 percent for working women and 64 percent for female NEETs. This suggests a gender-specific labor supply issue; young women who have achieved a better education than their parents—for instance, by completing primary education, or by completing the “Certificate of General Culture” program in the third cycle of basic education, grades 7 to 9—seem reluctant to take poor-quality jobs, such as unpaid labor on the family farm or self-employment in commercial services in precarious urban street markets. This theory is reinforced by the observation that better educated young people who actively seek work are less likely to get it than less-educated youth.

Women with higher levels of schooling are more likely to be in the labor force than less-educated women—but most women have lower levels of schooling. Regression analysis of labor market data identifies completed secondary education as a powerful determinant of female LFP. However, in Honduras, 65 percent of young females only have incomplete secondary education (Figure 24), and those women are no more likely to be in the workforce than those who have just completed primary education, who constitute about 10 percent of the population aged 15 to 24 (Sousa and Muller, 2018, figure 3.4).

These findings support the hypothesis that female educational attainment has run ahead of creation of jobs that better-educated girls and women want. The result is a high share of female NEETs, who are queuing until a job that they want to do becomes available. It is not necessarily helpful to describe this problem

²³ There are differences in the tails of the distribution [lower and higher educational attainments] but relatively few women are in those categories.

in terms of inflexible reservation wages, which suggests that the problem could be fixed if wages fell to the market-clearing level. It is well-known that in dualistic labor markets, wage rates will not shift to clear the market. The problem is better understood in terms of a mismatch between aspirations of female workers and the quality of available jobs, including the degree of security and dignity associated with them. In contrast, men—whose social role requires them to support their family—will tend to take whatever job they can get.²⁴

There is a risk of a negative feedback loop, where the lack of better jobs decreases household demand for education. If young people do not perceive that staying in school will bring them better jobs, there is a risk that they will drop out of secondary education. That, in turn, will undermine human capital formation and constrain future Honduran productivity growth.

Another possible cause of female non-participation in the labor force is the need to look after children. By identifying household heads in the data, we estimated the incidence of motherhood among the NEETs. Among adult female NEETs, 73 percent are heads of households (or spouses of heads) with children. Among young female NEETs, only 26 percent are in the same situation, but some of these may still have children even though they are not registered as household head. So, childcare responsibilities may be an important cause of the NEET phenomenon. To address this, the Honduran Association of Maquilas, in conjunction with unions and the Government, has initiated a program of community-based childcare services. The program aims to serve almost 9,000 children across 500 centers (Box 2).

BOX 2: “PROGRAMA DE HOGARES COMUNITARIOS DE CUIDADO INFANTIL” IN THE MAQUILA SECTOR

The program “Community households for childcare delivery” is a result of the “Agreement to promote investment, employment protection, health, and social household for the workers in the textile maquila sector in Honduras.” Signed in 2014 between the Government, the private sector, and the workers’ unions, it responds to “Public Policy for Integral Action of Early Childhood” (PAPI, in Spanish) from 2013, which advocates investing in early childhood development.

The program functions as a community network operating in workers’ homes, which are adapted and equipped to provide the childcare services. The program was revised this year, adopting a household micro-entrepreneurship model in which the Government provides targeted social investment, and a private sector foundation to implement it. The goal is to serve 8,750 children below the age of five in 500 units, which will care for 14–21 children each.

Source: Asociación Hondureña de Maquiladores. [2018]. Memoria Anual 2017. Retrieved from <http://www.ahm-honduras.com/wp-content/uploads/2017/07/Memoria-2017.pdf>

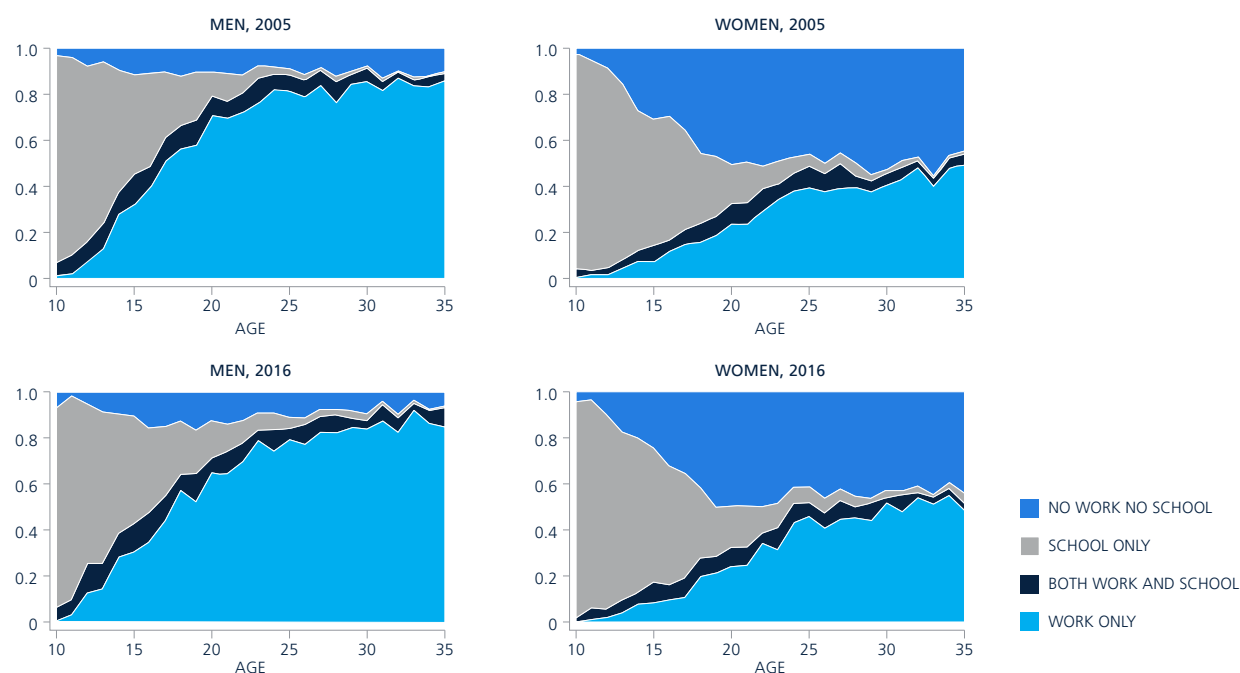
By the time Honduran women are 19-years-old, half have become NEETs and the ratio never falls after that (Figure 29). This likely reflects “path-dependency”: once a young woman becomes a NEET, it is difficult to reintegrate into school or work (especially formal work). Women who are out of the labor force miss out on the skill enhancement that comes from working (World Bank, 2019). As they age, women’s incentives to join the labor force decline. In contrast, almost all young men transition from school into work by the time they are 18.

The overall share of female NEETs fell slightly between 2005 and 2016. The female NEET population fell from 45 to 41 percent of the female WAP, with a peak in 2012 at 47 percent.²⁵ There was a large decrease in the rural areas (from 60 to 52 percent), mostly among adults, and an increase in urban areas (from 31 to 33 percent), mainly among youth. Economic drivers may be causing these results, with increased household incomes, better educational attainment, and few good job opportunities for women causing them to be reluctant to accept “bad” jobs.

²⁴ This insight informs an important stream of literature on the interface between education and labor market outcomes. See for example: Fields, Gary: The labor market effects of educational expansion in an extended Harris-Todaro model [2018—under review].

²⁵ The proportion of men who are NEET increased in the same period, from five to seven percent. This reflects increases in the share of NEETs among urban and rural men, and across age groups, with larger increments in urban and young NEETs.

Figure 29
Transitions from school to adult life for men and women, 2005 and 2016



Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHM data

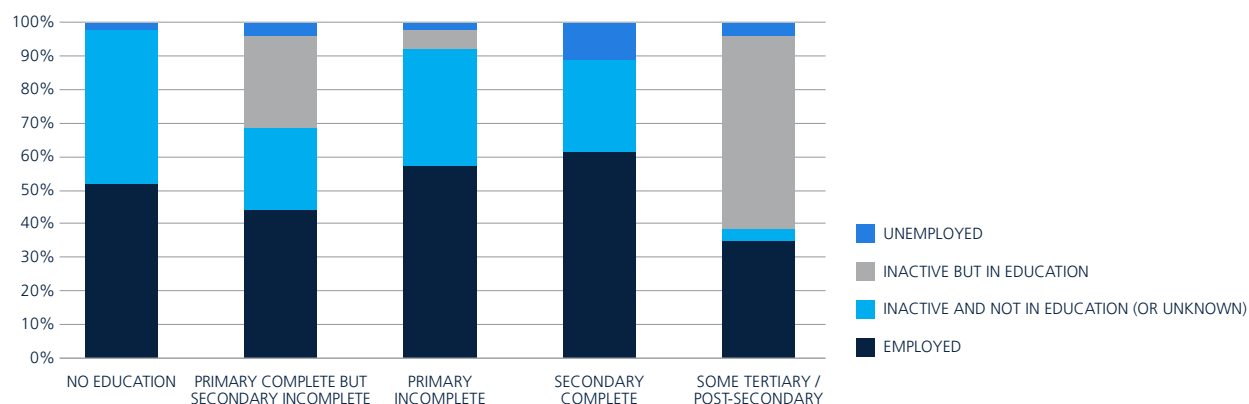
Although youth are better educated than older Hondurans, they generally earn less—underlining the importance of on-the-job learning. Youth (aged 15 to 24) earn on average 35 percent less than adults, with a larger gap in urban (37 percent) than in rural areas (24 percent). Nearly a quarter of young workers receive no remuneration, while only 4.2 percent of adult workers are unpaid. While 13 percent of adult workers are employers, the ratio is only three percent for youth. On the other hand, young workers are more likely to be in a salaried job: 62 percent of young workers are wage-workers compared to 51 percent of older workers. They are also less likely to be in self-employment (12 percent compared to 32 percent). The differentials by job type are much larger in rural areas than in urban areas. Finally, youth unemployment is an urban phenomenon and is higher among better-educated young people: 73 percent of unemployed youth are urban, with half of them in Tegucigalpa (AMDC) and 25 percent in San Pedro Sula.

Lack of better jobs for youth lowers labor force participation and creates the risk that households will reduce their demand for education. In 2016, youth LFP was 51 percent versus 72 percent for 25–64-year-olds. The 49 percent of youth are out of the labor force are divided almost equally between those still studying (25 percent) and NEETs (24 percent). As discussed above, when young people do not perceive that staying in school will lead to better jobs they tend to drop out of secondary education. That, in turn, undermines human capital accumulation and productivity growth.

Unemployment of relatively well-educated youth is a related concern. Youth unemployment is highest among those with higher education (Figure 30). Among those who completed secondary education (12 to 13 years of schooling), 11 percent are unemployed, indicating a willingness to prolong their job search. But unemployment is lower for those with post-secondary and tertiary education, suggesting less of a mis-match between supply and demand in that segment of the labor market.

The sector distribution of youth jobs reflects their disadvantage in labor markets. One in three young workers works in agriculture, compared to only 24 percent of adult workers. This sector has the lowest productivity and offers the lowest earnings. Youth are also over-represented in other low productivity sectors, and

Figure 30
Employment status of youth (15–14) by educational attainment, 2016



Source: World Bank calculations using the Jobs Diagnostic Supply Side Tool, and I2D2-standardized EPHM data.

they are under-represented in better paid sectors such as financial and business services, public administration, transport, and communications.

Technical and Vocational Education and Training (TVET) can help improve labor market outcomes for youth. To complement general education, Honduras also needs to strengthen training programs for work-specific skills. “Externalities” linked to training mean that the market will under-supply such services: firms and families will spend less than is socially optimal, so there is a strong case for public funding. This is particularly important for youth from poor families who lack work experience and family connections. That makes it hard for them to compete for better jobs in a market characterized by over-supply of job applicants. This becomes a vicious circle: if they can’t acquire the work-specific skills needed by formal firms, they are forced towards informal jobs.

The TVET system in Honduras is ripe for reform to strengthen effectiveness in helping young people get better jobs. The National Institute of Professional Training (*Instituto Nacional de Formación Profesional*, [INFOP]) is the Government’s technical vocational training institute. It was established in 1972 to provide professional training in all sectors, in line with the national economic and social development plan and the needs of the country. In 2016, INFOP spent L.905 million (approx. US\$ 38 million), representing about 0.18 percent of Honduran GDP. In the same year, INFOP trained 236,000 individuals through various courses at different skill levels. Funding for INFOP comes almost entirely from contributions from firms with five or more workers, through a payroll tax of one percent. For the average trainee, INFOP spends between L.3,000–L.4,500 (US\$ 125 to US\$ 187).

INFOP should focus more on youth facing structural labor market barriers. INFOP offers technical training in 118 areas, ranging widely from carpentry to organic farming, and training in social services. The courses target adults as well as youth: 57 percent of trainees are between 15 to 29 years old, with a relatively good gender balance. The modality of training varies from online courses and workshops to long-term courses of up to 2.5 years. INFOP emphasizes skills training for those already employed, while providing relatively little support to skill development for youths and first-time job seekers. The “complementary” modality, which targets those already working, accounted for about 45 percent of all trainees in 2017. “Informative” training (short-term, general training for workers in mid to high management jobs) accounted for about 42 percent of trainees.

In contrast, only 11 percent of trainees are in courses targeting youth or informal workers.²⁶ The remaining two percent of trainees take courses provided jointly with firms on specific skills or issues identified by the firm.

The highest demand for training comes from direct requests by the productive sectors. In 2017, 40 percent of trainees participated in courses offered based on firms' requests. Another 26 percent of trainees received "on-the-job" skills training, 17 percent on digital literacy, and nine percent each on English language courses and training targeted to the "vulnerable population." The vulnerable population include those with disabilities or ethnic minorities, migrants, or those in prison.

Increasing courses and encouraging wider attendance by youths and first-time jobs seekers could improve their career prospects. Youth and informal sector workers are prone to becoming trapped in structural unemployment and/or low-productivity jobs. Moreover, for these groups, insertion into formal jobs requires more than skills training. Evidence shows that an integrated package of interventions, including job-search skills, better help youth and informal sector workers shift from unemployment, underemployment, and low-productivity jobs to employment in high-productivity jobs (S4YE, 2017).

Responding to pressure from the private sector, INFOP has extended its use of third-party training providers, allowing more flexible, and market driven offerings. These arrangements are more demand-oriented than the traditional INFOP delivery system. They account for about 20 percent of the INFOP budget and 40 percent of the training places funded. Agreements have been signed with the regional Chambers of Commerce of Francisco Morazán and Cortes; CADERH (Centro de Asesor Para el Desarrollo de los Recursos Humanos) and PROCINCO (Programa de Capacitación Integral para la Competividad) (Box 3). The courses provided through institutional agreements focus on skills training in productive sectors, based on requests from firms and non-for-profit organizations, with training content provided by INFOP. Given international evidence for the effectiveness of privately-delivered, performance-based contracted training services, INFOP should look to further expand these arrangements.

BOX 3: PROCINCO AND CADERH: TWO OF INFOP'S OUTSOURCED TRAINING PROVIDERS

PROCINCO is a specialized training unit of the Honduras' Association of *Maquiladores*, established in 2001 with financing from the Inter-American Development Bank (IADB). PROCINCO provides four areas of training: Productivity and Continued Improvements, Occupational Security and Health, Administration and Human Resources, and Legal and Social Compliance. Courses are provided on demand from firms, which provide some financial contributions, but INFOP provides the technical training.

CADERH is an internationally certified, non-for-profit training agency. It was originally established in the 1990s with support from USAID. It now operates 20 centers, offering training, skills formation, and certification to individuals as well as to training centers. It now provides training in 24 different types of jobs, benefiting over 10,000 young people a year. CADERH focuses on training youth living below the poverty line and who face social risks. It has an annual budget of L.16 million [approx. US\$ 670,000]; L.10 million provided by INFOP and L.6 million from project contracts. It also gets funding from bilateral agencies such as USAID, and international NGOs such as World Vision; and has benefitted from IADB and World Bank investment loans. It also provides training on a project basis, financed by bilateral agencies, catering specific target groups. In 2017, CADERH trained 10,378 youth: 6,872 in technical skills and 3,506 in academic education up to the undergraduate level. The youth they trained established 140 micro enterprises using the skills they mastered. CADERH estimates spending US\$ 1,400 per youth, per year to enroll, train, provide on-the-job training, and evaluate for certification. CADERH is the only internationally-certified agency to provide certification in Honduras.

²⁶ These include the following four training modalities: "*Habilitación*," aimed for informal sector workers and semi-skilled workers providing training from 100 hours to 1,600 hours; Individualized Formation, an open and flexible training used for training workshops; Training at Centers providing long-term (1.5 to 2.5 years) skills training for youth between 15 to 21 years of age; and "*Formación CAFEDH*" [CAFEDH stands for Family Education Centers for the Development of Honduras] which brings skills training taking into account the environment in which the trainees live in, and involving the parents in the process.

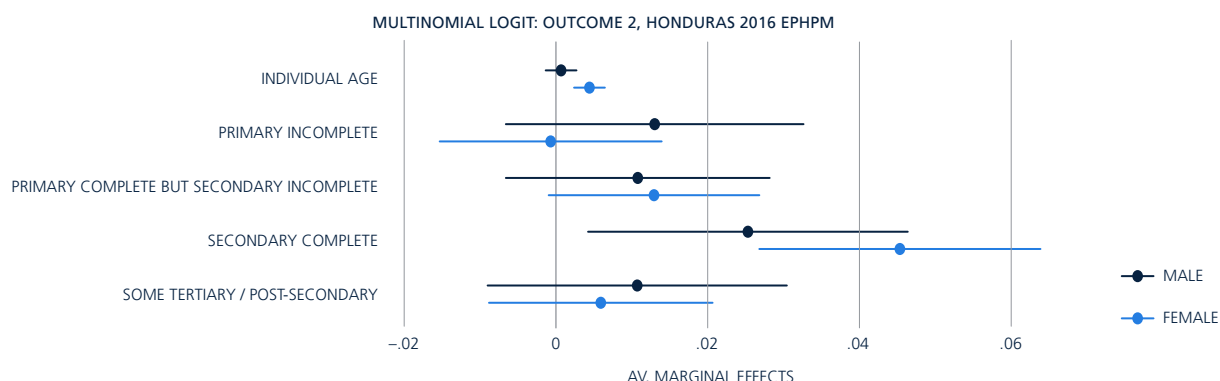
Aligning skills supply with private sector demand for skills could reduce labor underutilization in Honduras. The Government is committed to strengthening links between INFOP and the private sector, especially industries targeted in its *Plan 20–20*, but multiple changes are needed. In early 2019, COHEP (Honduran Council of Private Enterprise) called on its members to stop contributing to INFOP, pending serious reforms. INFOP would certainly benefit from fundamental reform. It has been using the same curriculum for 40 years and some training manuals for 35 years. This suggests that the organization has offered supply-driven courses not responsive to market demand. Training equipment is also outdated. Many INFOP employees (mostly trainers) are set to retire in 2018 and 2019 (200 and 120, respectively), providing an opportunity to overhaul the institution. The institute is currently reviewing its curriculum and training manuals and debating its governance structure. INFOP does not have a digitalized information system to track data on training provided by technical areas, or on the outcome of the training in terms of job placement. It has no capacity to refer trained job-seekers to potential employers, even when firms contract INFOP for referrals.

Three indicators capture insufficient access to jobs. The main relevant indicators are: the unemployment rate, time-related underemployment, and the potential labor force, which point to the extent to which the economy is falling short in utilizing its population’s full potential. As per International Labour Organisation (ILO) definitions, unemployment refers to people who are not in employment and are actively seeking a job. Time-related under-employment denotes insufficient working time for people who would like to work more. Finally, the potential labor force comprises people for whom existing conditions impede their active job search and/or their availability.²⁷

Unemployment rates are higher among urban residents, youth, and women. The urban unemployment rate is at 6.4 percent, compared to 2.8 percent in rural areas. Youth unemployment is five percentage points higher than for adults (8.5 compared to 3.5 percent). Female unemployment is at 5.7 percent compared to 4.3 percent for men. People with complete secondary education are more likely to be searching for a job without success. This situation seems to be more persistent among women (Figure 31). When considering a WAP of people aged over 15, the unemployment rate in 2016 in Honduras was 4.6 percent, roughly in line with other countries in the region: El Salvador (4.6 percent), Dominican Republic (3.2 percent), Ecuador (5.2 percent), Mexico (3.1 percent), Panama (5.2 percent) and Peru (3.4 percent) (SEDLAC).

Time-related under-employment is pervasive in Honduras. In 2016, the share of under-employed workers (those working less than 35 hours per week) was 35 percent. Many Hondurans who would like to

Figure 31
The impact of gender on the probability of unemployment, by level of educational attainment



Source: produced by the Jobs Diagnostic Supply Side Tool with data from the EPHM 2016.

²⁷ There is also widespread perception that a significant proportion of employed people in the region is unsatisfied with their job. A calculation of the share of workers willing to change employment and/or increase hours of work [SEDLAC] evidences this: Peru [11.6 percent]; Guatemala [15.7 percent in 2014], Ecuador [28.6 percent], Honduras [29 percent], Dominican Republic [32.0 percent], Costa Rica [47.6 percent].

work more hours are not finding opportunities to do so.²⁸ The largest shares of under-employed workers are rural (45 percent), women (42 percent) and youth (40 percent). In contrast for urban, male and adult workers under-employment is 28, 31 and 33 percent, respectively. Under-employment is more predominant among unpaid workers (67 percent) and the self-employed (53 percent), and less among salaried workers (21 percent). From an economic standpoint, this means resources are unused. From a sociological perspective, under-employment may leave more time for activities which damage social cohesion. The devil finds work for idle hands, as the saying goes.

Many inactive people would prefer to be working. In 2016, 13 percent of the inactive working-age population in Honduras said they were able and willing to work. They stated various reasons for putting no effort into job search, including the belief that they will not find a job (28 percent), the need to care for children/elderly/ill people (17 percent), lacking time to seek for a job (13 percent), and simply having temporarily stopped their job search (12 percent). In ILO terminology, people who do not engage in job search for labor-market related reasons²⁹ are called discouraged jobseekers. In Honduras, discouraged jobseekers are 3.7 percent of the inactive population.

The central conclusion of this analysis is that better jobs prospects are needed for the young cohorts entering the workforce, especially for young women. Almost a third of Hondurans are below age 15, and another 22 percent are already between 15 and 24 years old. This sizable “youth bulge” represents “workers in waiting.” Human capital investments have risen: these youths have spent more time at school than the older generations. Central challenges are to make sure that there are more good jobs to take advantage of the better-educated youth joining the workforce; and that effective programs are in place to help disadvantaged young people to bridge from school into productive employment. Expanding and diversifying job prospects in higher-productivity activities will be essential to reaping the returns of Honduras’ human capital investments.



COMRURAL project training session in the Copan region

²⁸ A question in the EPHPM survey captures this willingness to work additional hours.

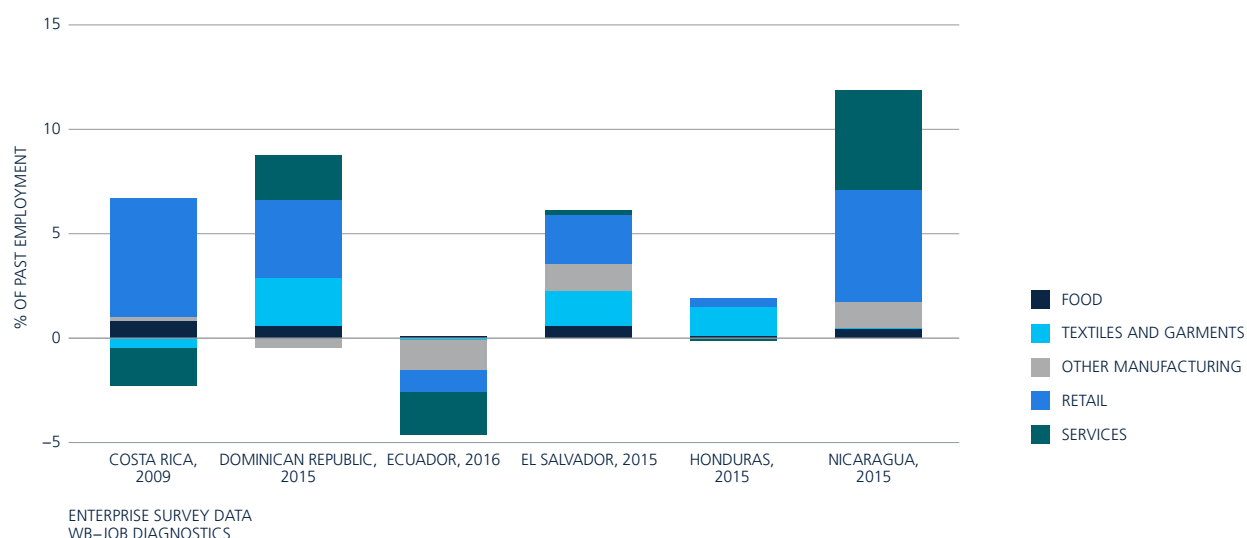
²⁹ These include: past failure to find a suitable job, lack of experience, qualifications or jobs matching the person’s skills, lack of jobs in the area, considered too young or too old by prospective employers [ICLS Resolution I]

3. PRIVATE SECTOR JOBS GROWTH AND THE DEMAND FOR LABOR

The formal private sector in Honduras has struggled to create jobs in recent years. Data on firms’ employment and output in Honduras is limited as the Government’s firm census is badly outdated (2001). The World Bank’s Enterprise Surveys capture data on the formal sector, covering a sample of enterprises with at least five employees, where at least one is permanent (Box 4). The Honduras 2016 Enterprise Survey reports on net job creation in surveyed firms between 2012 and 2015.³⁰ Three-year employment growth in Honduras was 2.5 percent. In contrast, Nicaraguan firms reported over 10 percent, while Dominican Republic, Costa Rica, and El Salvador surpassed five percent (Figure 32). Moreover, in Honduras, formal job creation came almost entirely from the textile industry. This suggests that particular conditions in the maquila sector (such as a lower minimum wage, productivity differentials, and international market conditions) may have protected it from constraints faced by other sectors.

Most formal sector firms are small, but most jobs in formal firms are in larger firms. Enterprise survey data show that half of the private formal sector firms in Honduras are small (less than 10 employees), but this group provides only seven percent of the jobs. Large firms (100+ employees), in contrast, comprise seven percent of the firms represented in the survey, but they employ 62 percent of workers in surveyed firms (Figure 33).

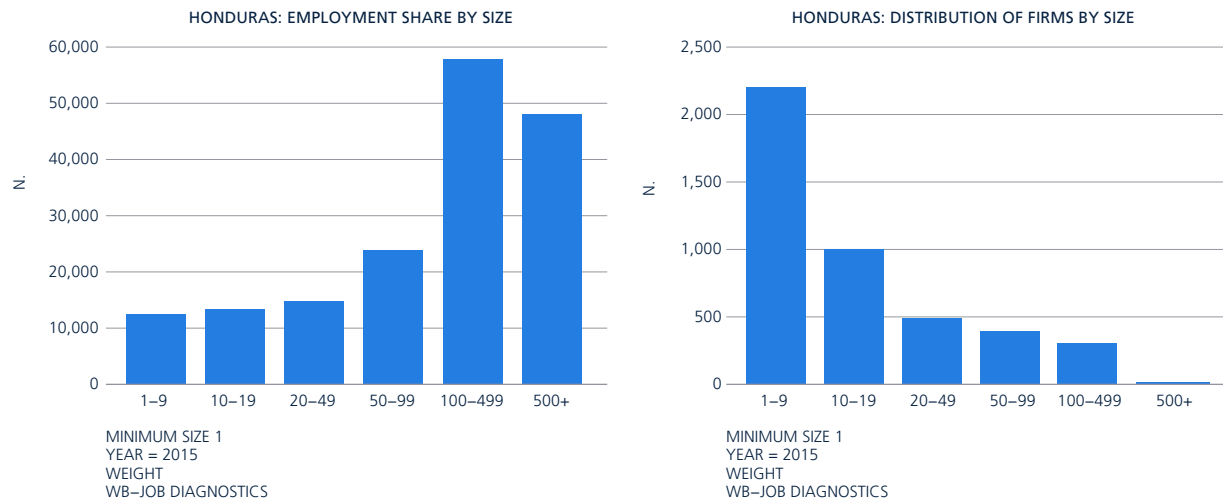
Figure 32
Formal net job creation by sector over a 3-year interval in selected LAC countries, circa 2015



Source: Authors using the Jobs Diagnostic Demand-side Tool and World Bank Enterprise Survey 2016.

³⁰ Enterprise Survey data are based on a sample constrained to specific sectors and locations, and not fully representative of the universe of private firms in the country. The indicator reported here captures the difference in employment numbers reported in 2015 by firms that existed both in 2015 and in 2012, so it does not capture jobs created by firms who entered or exited the market in that interval.

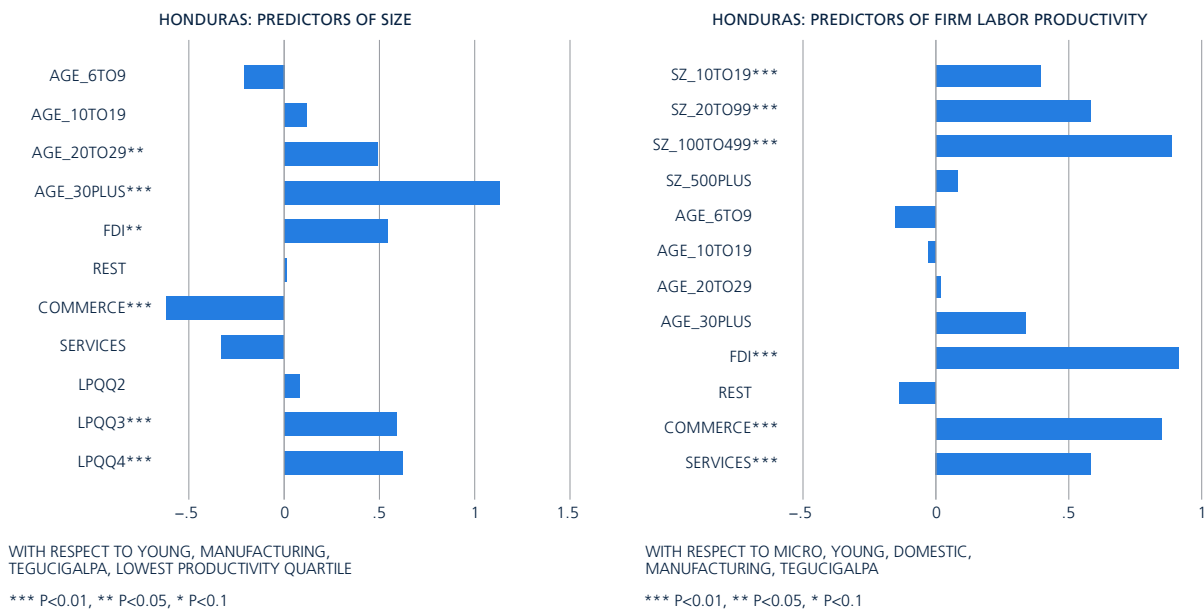
Figure 33
Distribution of employment by firm size and distribution of firms by size, 2015



Source: Authors, using the Jobs Diagnostic Demand-side Tool and World Bank Enterprise Survey 2016.

Firms’ capacity to expand their workforce correlates with the firm’s age, sector, ownership, and labor productivity. Using the same 2016 Enterprise Survey data, we used probit regression models to investigate correlation of employment to productivity. Increases in employees are higher among firms in existence for more than 20 years; among foreign-owned firms; among manufacturing firms, relative to commercial firms; and among high productivity firms (Figure 34 left panel). In turn, higher labor productivity is associated with higher firm size, foreign capital investment, and commerce sector firms (Figure 34, right panel).

Figure 34
Regression outputs for predictors of employees (left panel) and productivity (right panel)



Source: Authors, using the Jobs Diagnostic Demand-side Tool and World Bank Enterprise Survey 2016.

BOX 4: WORLD BANK HONDURAS ENTERPRISE SURVEY (2016)

The 2016 World Bank Enterprise Survey captures data for formal firms in Honduras in 2015. It describes a sample of 332 formal firms, representing a universe of 4,419 firms with five or more employees. The sampling framework is representative at three stratification levels: size [5–19, 20–99, 100+], sector [manufacture, retail commerce, and services] and location [Tegucigalpa, San Pedro Sula, Rest]. These data have the advantage of being recent and being internationally comparable. However, it has several limitations which may distort estimates for the universe of formal firms in Honduras:

- i. It is small: 332 observations in total; the cell-level observations are very small [Table A].
- ii. It may over represent firms in manufacturing, large firms, and firms located in Tegucigalpa [Table B].
- iii. Young firms tend to be under-represented.
- iv. High non-response rates [15–32 percent, depending on the sector].

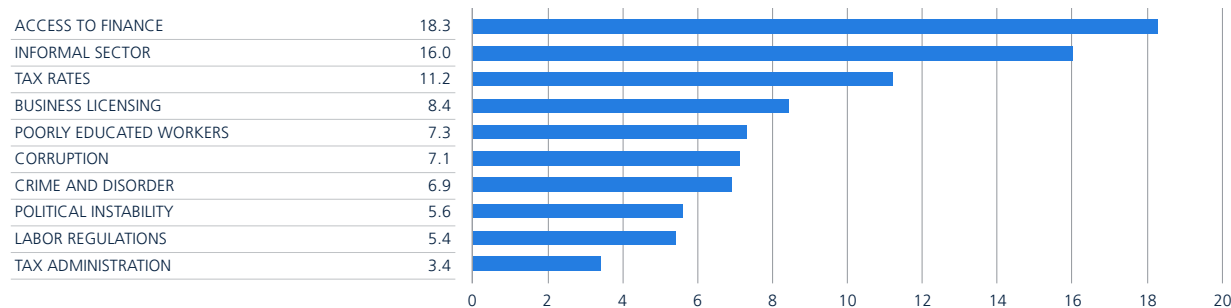
Table A
Firms that responded to the survey

		Manufacturing	Retail	Other Services	Grand Total
Tegucigalpa	<i>Small</i>	7	49	22	162
	<i>Medium</i>	23	4	22	
	<i>Large</i>	16	5	14	
Rest of the Country	<i>Small</i>	17	56	27	170
	<i>Medium</i>	19	3	22	
	<i>Large</i>	8	2	16	
		90	119	123	332

Table B
Universe estimates

		Manufacturing	Retail	Other Services	Grand Total
Tegucigalpa	<i>Small</i>	317	127	667	1,571
	<i>Medium</i>	104	25	131	
	<i>Large</i>	87	15	98	
Rest of the Country	<i>Small</i>	599	226	1,458	2,848
	<i>Medium</i>	146	33	159	
	<i>Large</i>	125	7	95	
		1,378	432	2,609	4,419

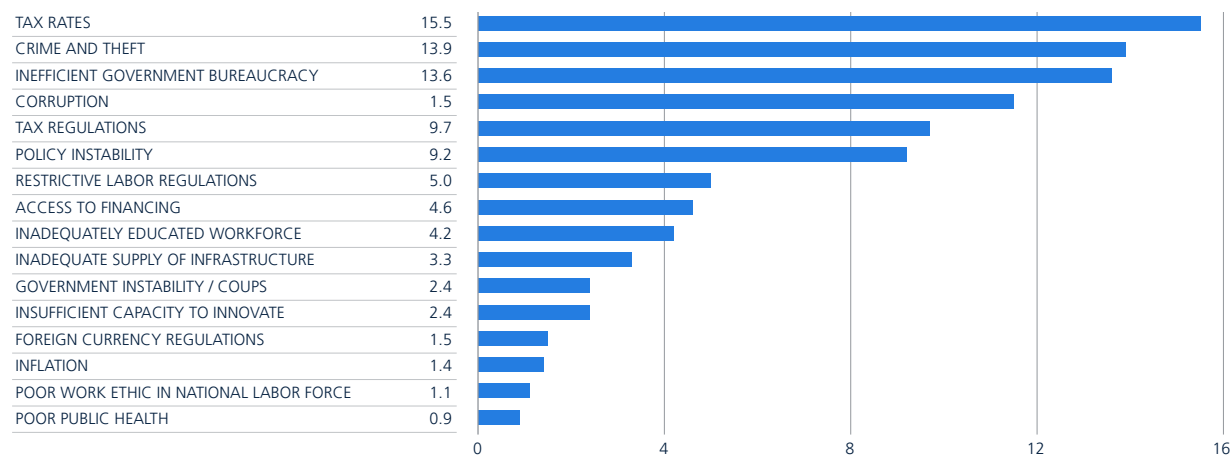
Figure 35
Ranking of the top business environment obstacles for firms, 2016



Source: World Bank Enterprise Survey 2016.

When questioned about their main constraints to expanding jobs, formal businesses identify a range of problems. The *World Bank Enterprise Survey* asks respondents to rank 15 business environment obstacles. Almost 20 percent of firms view limited access to finance as the top constraint (Figure 35). A similar proportion considers the informal sector as the biggest obstacle. Other common responses concern aspects related to the political and social environment—such as corruption, crime, and instability—and burdens due to administrative requirements and regulations: tax rates³¹ and tax administration, business licensing, and labor regulations. The lack of skilled workforce also figures among the common obstacles for firm expansion. The *World Economic Forum’s Executive Opinion Survey* (2017) validates some of these results. According to that survey, the most problematic factors for doing business are tax burdens, crime, bureaucracy, and corruption (Figure 36). A caveat to interpretation of these data is that opinion surveys of businesses that survive in the existing business climate may not capture factors that prevent other businesses from existing. They may also reflect strategic positioning; for instance, even when capital markets are working well, businesses might still stress the need for cheaper finance as that would allow them to increase profits.

Figure 36
Most problematic factors for doing business, 2017



Source: World Economic Forum, Executive Opinion Survey 2017.

Note: From the list of factors, respondents to the World Economic Forum’s Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

³¹ Following pressure from COHEP, the government recently eliminated a controversial 1.5% withholding tax on firms’ gross incomes, which counted as a credit for income tax purposes, which may stimulate job creation. But from a fiscal management standpoint this may imply a step backwards on combating evasion.

The World Bank’s Doing Business Indicators (DBI) capture dimensions of the business climate through objective, comparable measures reported by local experts rather than firms’ opinions. The DBI ranks Honduras 115th of 190 countries in the general index of the ease of doing business (2018), with a score of 58.5 of a maximum possible of 100 (Table 8). Overall, as highlighted in the IMF Article IV Consultation, Honduras needs to reduce red-tape. It has made progress in simplifying and automating measures related to value-added tax (VAT) exemptions, customs, consolidating paperwork and using electronic signatures, but much remains to be done.

Four challenges are highlighted by the Doing Business analysis. First, despite improvements made in 2016,³² protections for minority investors need strengthening by expanding shareholders rights and improving corporate governance and transparency. Second, contract enforcement could be improved by reducing the costs of enforcement (for example, attorney fees), reducing the time needed to resolve disputes and improving practices in the court system. Third, the administrative burden of paying taxes could be ameliorated by reducing the time taken to prepare, file and pay taxes and respond to tax audits; decreasing the number of payments per year; and facilitating the payment of tax refunds. Fourth, firms are highly constrained by unreliable power supply (outages), lack of transparency in the electricity tariff regime, and high tariffs³³ due to high priced power supply contracts (power purchase agreements) with private generators and very high system losses (over 30 percent of generated power is never billed). It is important to highlight that different regulations and procedures once make trading across Honduran borders difficult, but significant progress has occurred since 2018 to facilitate trade: COPRISAO (the Presidential Commission for the Integral Reform of the Customs System and Trade Operators) is almost ready to deliver a new customs system, which will operate modernized procedures, technology systems, and physical infrastructure to meet international standards of competitiveness and trade facilitation. Moreover, at the beginning of the year, implementation of a Customs Union between Guatemala and Honduras avoided duplication of procedures and reduced costs and cross-border time from 10 hours to 15 minutes.³⁴

Table 8
Ease of doing business scores for Honduras and regional comparator countries, 2018

Indicator	Costa Rica	Dominican Republic	El Salvador	Guatemala	Honduras	LAC
Resolving Insolvency	34.42	37.59	45.69	27.57	32.07	38.95
Protecting Minority Investors	48.33	51.67	38.33	31.67	45.00	47.24
Enforcing Contracts	51.48	48.71	55.20	34.55	45.54	53.13
Paying Taxes	77.46	57.45	77.35	70.30	51.74	60.16
Getting Electricity	88.21	64.74	71.40	84.02	53.61	70.45
Registering Property	74.36	65.67	67.92	64.44	63.42	55.36
Dealing with Construction Permits	71.02	71.73	60.16	64.63	65.44	63.59
Trading across Borders	79.32	83.51	89.29	75.31	65.85	68.71
Starting a Business	81.65	83.23	78.88	79.30	76.98	78.09
Getting Credit	85.00	45.00	80.00	80.00	85.00	50.94
Distance to the Frontier (global index)	69.13	60.93	66.42	61.18	58.46	58.66

Source: World Bank Doing Business Indicators.

Note: Higher numbers mean better performance. The maximum possible is 100. The top score is New Zealand (86.55).

³² Honduras strengthened minority investor protections by requiring greater disclosure of related-party transactions, prohibiting parties from voting on a related-party transaction, allowing shareholders representing at least five percent of a company’s share capital to bring a direct action for damages against directors, and giving any shareholder the right to inspect company documents. World Bank. “Business Reforms in Honduras” <http://www.doingbusiness.org/reforms/overview/economy/honduras>.

³³ It could be that, in general, electricity tariffs in Honduras are competitive when compared to other Central America countries. However, there are wide differences in power tariffs across sectors; for example, the high-tension industrial tariff is 30 percent higher in Honduras than in Costa Rica and Guatemala.

³⁴ See more in <http://blogs.worldbank.org/latinamerica/customs-union-between-guatemala-and-honduras-10-hours-15-minutes>.

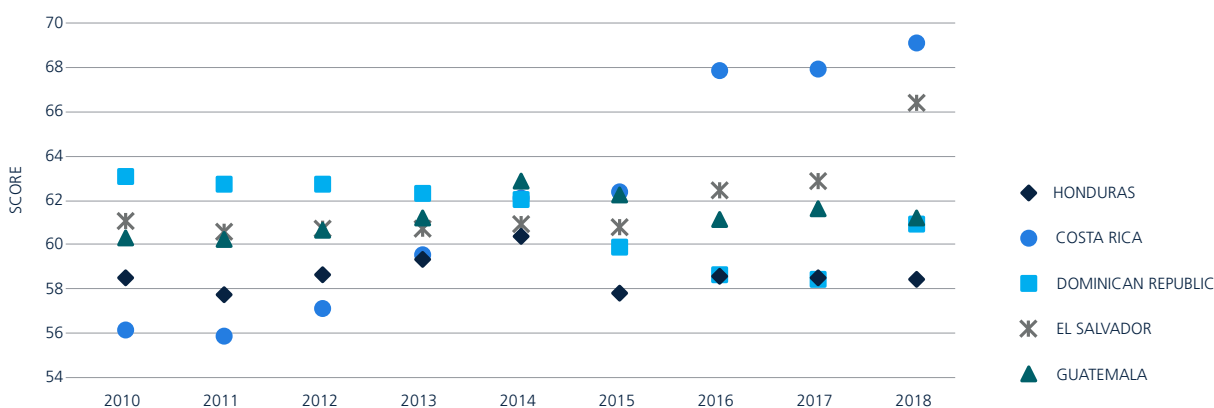
Honduras has lagged behind other countries in the region in strengthening product markets and facilitating business growth. Methodological changes in the Doing Business Indicators³⁵ mean that year-to-year changes in the indicator's absolute value are hard to interpret. However, changes in the relative position of Honduras with respect to comparator countries suggest that other countries are improving their business climate faster. Costa Rica has moved from the bottom position in Central America in 2010 to top place in 2018. El Salvador also increased its score more than other countries (Figure 37). But Honduras started next to bottom and ended up in bottom place in the region. Progress on the ease of starting a business, getting credit, and protecting investors was offset by worsening performance on paying taxes and cross-border trade (Annex Figure 4).

An important factor that may be limiting the growth of formal jobs is the level of minimum wages (MW). Honduras has a complex set of minimum wages. Labor regulations specify different MW for each of 11 sectors and four different firm size categories:³⁶ 1–10 workers, 11–50, 51–150, and 151 or more. The ratio between the MW for large firms (51–150 workers) and very large firms (151+ workers) and the MW for small firms has been rising over time. In 2012, the MW for a firm with 151+ workers in the commerce sector was seven percent higher than the MW for a firm with 1–10 workers. In 2018, the difference is 23 percent. This progressivity across firm size, compounded with the higher likelihood that large firms comply with MW regulations, results in higher labor costs for big firms than small firms.

The MW appears to be “binding” in most of the formal sector. Kernel distribution analysis of plots of earnings by firm size show that medium and large firms largely adhere to the MW, while small firms with 10 workers or less do not (Figure 38). Sector-level analysis reported above (Figure 13) shows that there is also a clear separation between informal and formal sector earnings in manufacturing, in wholesale and retail trade, and in hotels and restaurants, with the formal firms normally adhering to the MW, while small businesses often do not. In contrast, the pattern of earnings in agriculture and in construction is less clearly differentiated between formal and informal workers, suggesting that even formal firms in those sectors use a lot of informal labor and do not always comply with the labor code.

Changes in the MW may have hampered the growth of formal jobs after 2008. In 2008, the Honduran MW was raised by 40 percent, followed by a 32 percent rise in 2011. That took Honduras' MW above all other

Figure 37
Distance to the frontier in the ease of doing business

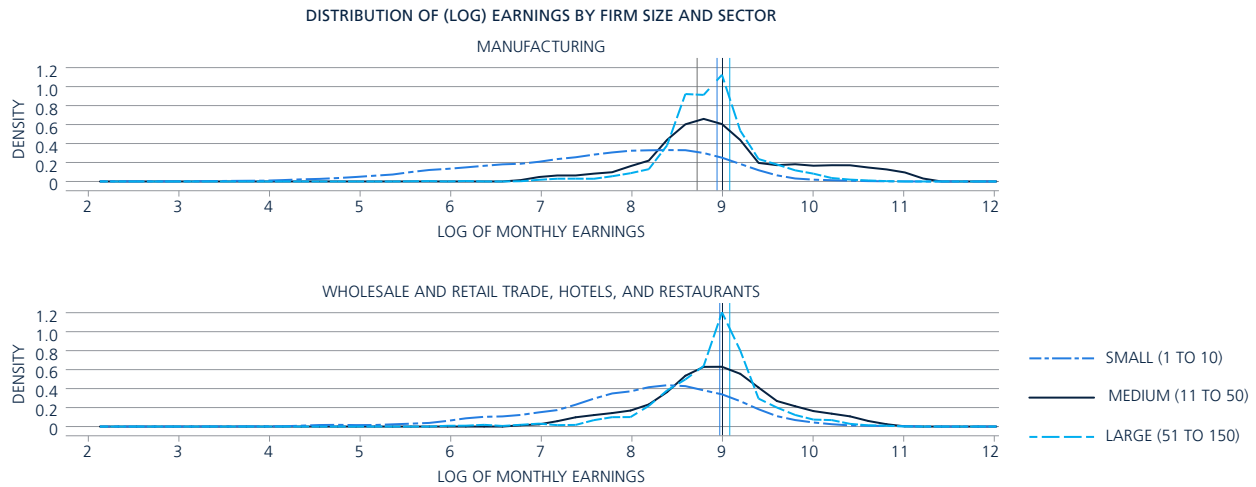


Source: Produced by the authors with data from the World Bank Doing Business Indicators.

³⁵ In Doing Business 2015, “Resolving Insolvency” introduced new measures of quality, while “Getting Credit and Protecting Minority Investors” broadened existing measures. In Doing Business 2016, “Dealing with Construction Permits,” “Getting Electricity,” “Registering Property” and “Enforcing Contracts” introduced new measures of quality, and “Trading Across Borders” introduced a new case scenario to increase the economic relevance. In Doing Business 2017, “Paying Taxes” introduced new measures of post-filing processes and “Starting a Business,” “Registering Property” and “Enforcing Contracts” added gender components.

³⁶ See for example the tabulates for 2018: <http://www.trabajo.gob.hn/tabla-de-salario-minimo-2018/>.

Figure 38
Minimum wage levels and distribution of estimated labor earnings by firm size and sector, 2016



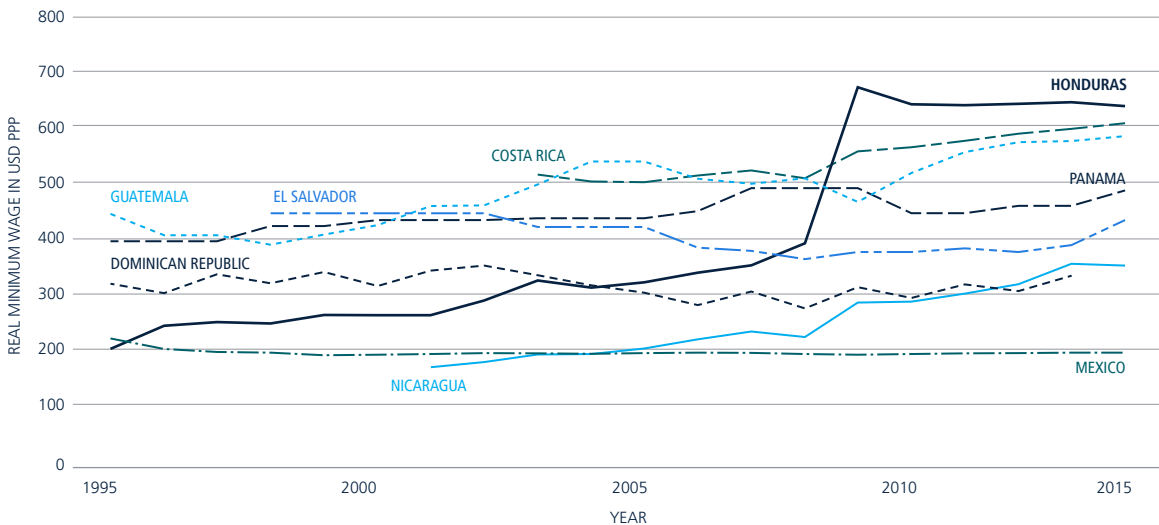
Source: The World Bank, with data from an I2D2 standardization of the EPHPM 2016.

Notes 1) There were no observations in the 2016 EPHPM standardized data for workers in firms with 151+ workers. Vertical lines represent the institutionalized minimum wage level in the sector for each firm size. The yellow vertical line is the minimum wage for firms in the Free Zone Maquila Sector.

countries in the region in dollar terms, including Costa Rica and Panama where per capita income is three or more times that of Honduras (Figure 39). Having stood about 30 percent below average earnings in the economy from 2001–2008, the Honduran MW has been about 30 percent above average earnings since then (Figure 40).

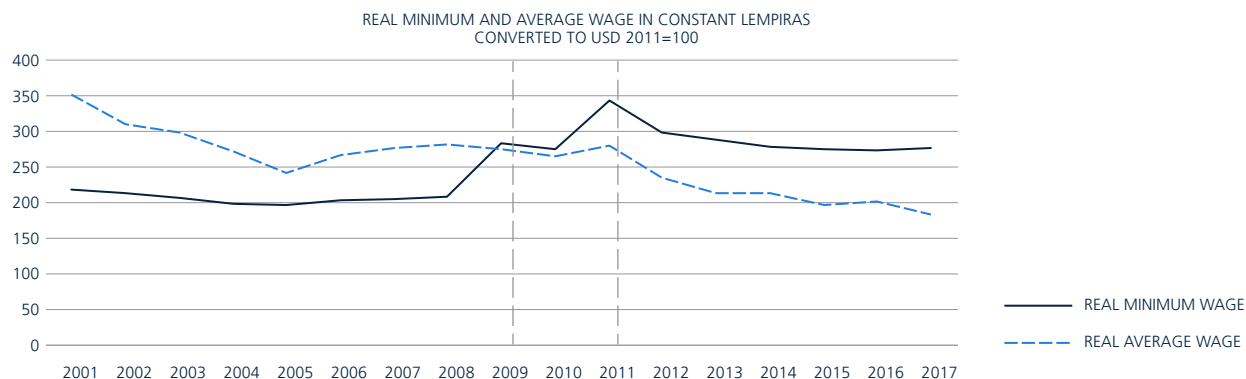
Honduras is the only country in the region where minimum wage is above average value-added per worker (1.64 times higher) (Figure 40). It is followed by Nicaragua (0.87), Guatemala (0.77), El Salvador (0.50), Costa Rica (0.45), Dominican Republic (0.40) and Panama (0.36) (World Bank Doing Business Indicators, 2017–2018). Honduras is the fourth highest-ranked country in the world on this indicator, below only Venezuela, Liberia, and Zimbabwe. In most high-income countries’ the ratio is around 0.3. In contrast, the other

Figure 39
Comparative Minimum Wages in the Central America Region, 1995–2015



Source: IPC-IG (2018).

Figure 40
Minimum wage compared with average wages in Honduras, 2001–2017



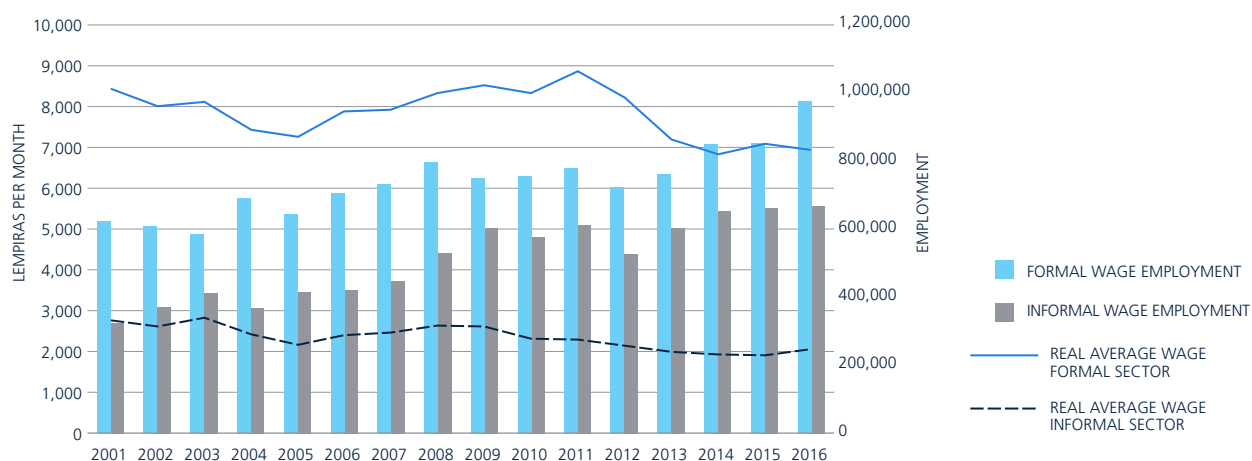
Source: CEPAL: Comisión Económica para América Latina y el Caribe—Sobre la base de cifras oficiales de los países—<http://www.cepal.org/es/areas-de-trabajo/desarrollo-economico>.

labor-protecting regulations in Honduras are better aligned with other countries in the region:³⁷ severance pay is slightly above the regional average, paid annual leave is just below, and Honduras requires third-party approval for dismissal and mandates premium pay for night work.

The increase in the MW coincided with a reversal of relative growth trends for formal and informal jobs.

Between 2001–2007, formal jobs grew much faster than informal jobs, rising by 33 percent (from 600,000 to almost 800,000) compared with an increase of just 12.5 percent (from 400,000 to 450,000) for informal jobs. But from 2008–2014, the number of formal jobs flat-lined at around 800,000 (zero growth), while the number of informal wage jobs by rose 33 percent (from 450,000 to 600,000) (Figure 41). After 2014, formal jobs growth picked up again, and informal jobs growth flattened off; but even then, much of the recovery in formal sector jobs growth came from the maquila sector where the MW was suppressed relative to the rest of the economy. Recent agreements (January 2018) to further raise the MW over the next two years are likely to undermine the recovery of formal jobs growth.

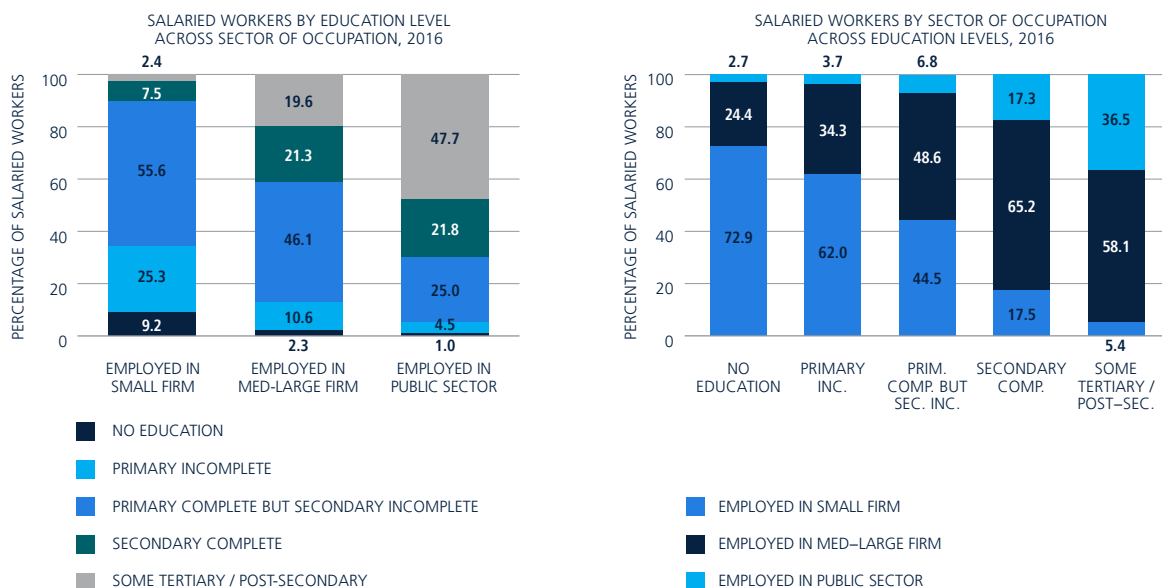
Figure 41
Wages and jobs in the formal and informal sectors, 2001–2016



Source: World Bank using 2016 EPHPM SEDLAC standardization.

³⁷ This includes Guatemala, El Salvador, Nicaragua, Costa Rica, Panama, Dominican Republic, and Honduras.

Figure 42
Public and private sector workforce composition by educational attainment



Source: Authors using data from EPHMP 2016, I2D2 standardization.

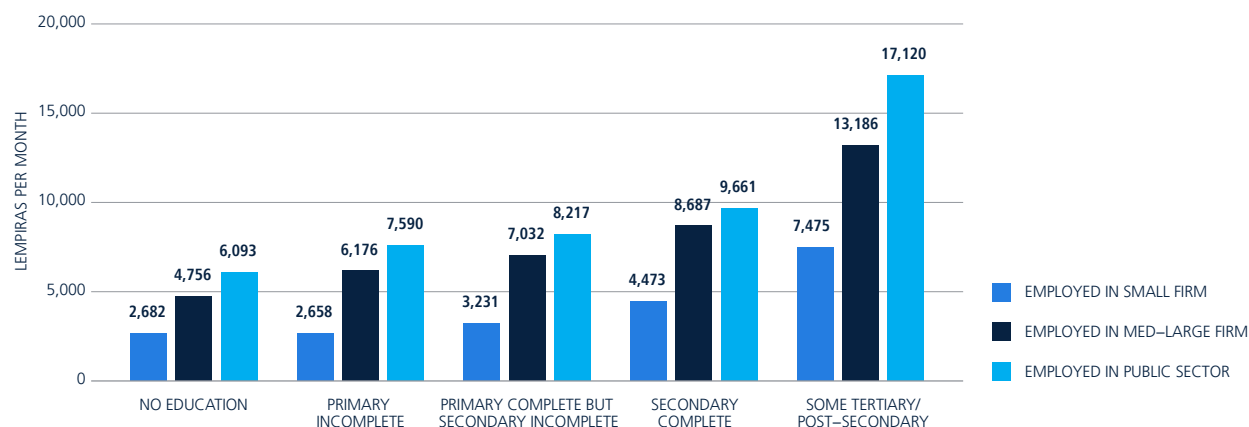
Another factor that may be affecting private sector jobs growth is competition from the public sector for higher-skilled workers. The public sector accounted for 13 percent of salaried jobs and seven percent of all jobs in 2016. There is a striking difference between the educational levels of public sector and private sector workers: over 50 percent of public sector jobs went to people with some tertiary education, and a huge 37 percent of all workers with tertiary education are working in the public sector. Another 20 percent of public sector jobs are held by people who have completed secondary education. In the private sector, only nine percent have tertiary education and 12 percent have completed secondary education. Most jobs in the private sector (50 percent of the total) go to people with completed primary and some secondary education, and 21 percent go to people with incomplete primary education. In the public sector, the corresponding numbers are much lower at 25 percent and four percent (Figure 42).

The overall public-sector wage premium in Honduras is estimated at 33 percent, compared with a global mean of 20 percent. The ratio of public sector to private sector wages for salaried workers is just above two, and among all types of employment it is 2.7. This ratio is second highest in Latin America (Hernandez et al, 2016). The differential reflects, in part, the different skills composition of workers in the public sector compared to private sector, noted above. Controlling for education level, the average wage differential is 33 percent.³⁸ This varies across education levels: salaried workers with incomplete primary education earn 92 percent more in the public sector; those with completed primary education earn 59 percent more; those with complete secondary education earn 24 percent more; and those with tertiary education earn 36 percent more than private sector workers (Figure 43). Policy makers should bear these issues in mind when determining public sector wage levels.

Existing programs to support job creation in Honduras could be improved. As well as correcting policies that create disincentives to private sector growth, the Government should support expansion of businesses that create better jobs for low-income youth. The benefits to society from workers getting better jobs are enormous; but the market will not, of its own accord, reallocate enough labor into more productive jobs. There is a large gap between earnings in jobs linked to modern markets (whether the job is formal or informal) compared to earnings in low productivity, traditional activities. For the number of better jobs to expand, firms need to invest; but the goal of private firms is not to create jobs—it is to maximize profit and the returns to capital. So, private

³⁸ [Hernandez et al., 2016] Page 76. Estimate based on Mincerian regressions.

Figure 43
Public sector wage premium by education level and firm size



Source: Authors using data from EPHMP 2016, I2D2 standardization.

firms tend to invest less than is socially optimal in labor intensive projects that can transform jobs for poor people. Economists refer to the discrepancy between firms' private incentives and the public interest in job creation as an "externality." The externality reflects the income gains to workers when they get better jobs (known as labor externalities). When the workers who get better jobs are also vulnerable—such as teenage boys that are tempted to join gangs like *mara*, or teenage girls who may be tempted into premature family formation—there can be additional "social externalities" (gains to society), such as reduced criminality or healthier children. The potential to reap economic rewards from jobs-linked externalities supports the case for public policies and programs to accelerate the growth of better jobs, especially for vulnerable youth and young women.³⁹

A national strategy co-led by the public and the private sector, "Honduras 20–20," has set out to expand strategic sectors with an emphasis on job creation. The Government's Plan *Honduras 20–20* lays out ambitious goals for business expansion and job creation in Honduras. It promotes investment through simplification of the legal regulatory framework and improving the country's logistical infrastructure, such as ports, airports, and roads. The Plan aims to generate 600,000 jobs in six strategic sectors: agribusiness, tourism, textile and apparel, housing, light manufacturing, and outsourcing services. By February, 2018 50,000 jobs had already been created, according to Government's estimates. Large investments are under way (Box 5), but it will be critical to ensure that low-income families can benefit from those opportunities. The sectors already chosen for Plan 20–20 offer many opportunities for labor-intensive job creation (including both direct jobs and indirect jobs in primary supply chains). But opportunities might also arise in other sectors, so the government should be flexible, keeping in mind jobs outcomes as the guiding principle.

To reinforce employment effects, Plan 20–20 could consider incorporating explicit jobs metrics into decisions regarding public support for expanding businesses. Labor intensity should be an explicit consideration. The emphasis would be on supporting businesses that can employ large numbers of workers with completed primary and some secondary education, the segment where excess labor supply concentrates. Businesses which are more capital intensive, or which need classes of labor not easily available in Honduras at internationally competitive wage rates, should not be prioritized. Clear rules to determine the level of public support based on jobs outcomes would reduce the risk of discretionary actions that might benefit "insiders" with political influence without creating many jobs. Where there are bottlenecks of high-skilled labor needed to leverage lower-skilled jobs, specialized training should be supported; and firms should be allowed to use ex-patriot labor until locals can be trained.

³⁹ For further discussion of the concept of jobs-linked externalities, see Robalino and Walker (2017). Economic Analysis of Jobs Investment Projects. <http://openknowledge.worldbank.org/handle/10986/28219>.

BOX 5: HONDURAS PLAN 20-20 KEY STRATEGIC SECTORS

Agribusiness

- Agribusiness' potential is deemed high for investment and trade. Different factors create this opportunity: low land cost, competitive salaries; proximity to the U.S., the main importer of agricultural products in the world; and duty-free access for fresh fruits and vegetables to different markets with different free-trade agreements (FTAs) signed with different countries.
- To foster this sector's growth, Honduras 20-20 focuses on driving local companies up the value chain through better standards, technology transfer, and facilitation of higher value activities. It uses the anchor company model to increase exports while supporting smaller players to attain larger market share. The plan estimates a potential growth of 6.1 percent per year.

Tourism

- The plan's goal is to double exports and increase tourist visits by 1 million. To achieve this, the strategy focuses on filling gaps across seven key development enablers: i) finishing the "corredor turístico," which improves travel to the Caribbean Coast, ii) passing a law to promote private investment, iii) developing an infrastructure master plan for main destinations, including social and environmental sustainability, iv) expanding and improving entertainment infrastructure, v) strengthening the Tourism Police, vi) strengthening human resources to excel in customer experience, and vii) improving country marketing and promotion.
- In August, 2017, the Congress approved the Tourism Promotion Law to enhance the country's competitiveness as a tourist destination. It includes a package of incentives for investment (local or International), a fund to support land and air transportation companies, mechanisms to set up investment trust funds, and special provisions on municipal permits and taxes.
- Promising opportunities to expand tourism also come from increasing air connectivity with Europe and South America.

Textile and apparel

- The vision for the sector is to position the country as the textile export leader in the Americas to the USA and Europe, reaching a total of US\$ 7.4 billion and creating 350,000 new jobs. The target is to surpass Indonesia and Mexico to become the US's fifth most important provider—up from its current position of seven.
- Synthetic yarns and activewear are among supported products. A recent investment of US\$ 78 million in a synthetic yarn plant is expected to manufacture 20,000 tons annually.
- In Choloma, Cortes an investment of \$700 million aims to develop the largest industrial textile park in Latin America.

Social Housing

- One goal is to build 50,000 affordable homes in sustainable communities by 2020 through improved policies, access to financing and urban planning.
- A public-private partnership (PPP) will stimulate economic development with 450,000 additional jobs and \$13bn in investment by 2020.
- To date, nearly 6,300 houses have been delivered, with workers (mostly in the maquila sector) receiving grants of up to US\$ 3,800 for down payments on affordable homes costing \$25,000 or less.

Light manufacturing

- Honduras 2020 vision for the sector is to place the country as the most dynamic cluster in the region, through an investment strategy focused on product diversification, including brakes, interiors, body parts, seat parts, and fuse boxes. Today, light manufacturing makes up nine percent of total exports. In 2016, this meant \$646 million. Under the plan, initiatives aim to boost this number to \$3,600 million, the estimated industry's potential.

Outsourcing services

- Outsourcing in Business Process and Information Technology Services (BPO/ITO) is identified as one of the fastest growing sectors (6 percent annually). Companies providing these services are concentrated in Tegucigalpa and San Pedro Sula, with 95 percent serving the U.S. market and five percent serving Canada and others.
- Aligned to Plan 2020 objectives to expand the sector, the Government's Call Center Scholarship program since 2015 has developed skills required for outsourcing, such as advanced English, computing, work skills, and call center management.
- Currently, 2,184 young people attend these training courses. The "Yes We Can" (INFOP) English Training Program also graduated around 500 young students in 2016. An industrial park with "Class A" buildings was built, dedicated exclusively to BPO development.

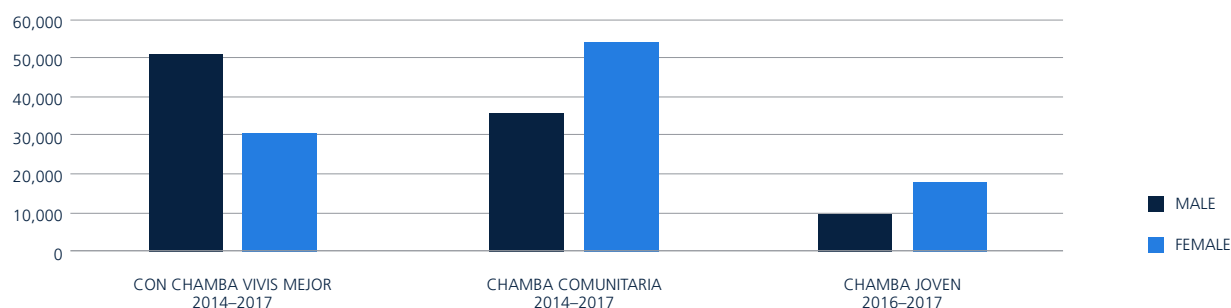
Source: Honduras 2020 Official Website <http://honduras2020.com>.

The Honduran government has also recognized the importance of direct support to job creation for low-income youth. “*Con Chamba Vivis Mejor*”⁴⁰ offers short-term work experience for unemployed youth. Training covers both technical and behavioral skills relevant for specific jobs, designed and delivered by the employers in the workplace. Members of the Chambers of Commerce and Industry offer job vacancies that match the profiles of youth registered with the National Employment Service (SENAEH). The program, which pays 50 percent of wages for three months, was initially supported by the IADB. A World Bank-financed evaluation in 2014 found that participants increased their wages, likelihood of employment, and likelihood of formal employment. Between 2014–2017, the program placed 81,000 youth in jobs, of which 66 percent were men. An evaluation of the first six months of the program showed that 43 percent of beneficiaries were first-time job seekers and 39 percent were long-term unemployed (about 13% of all trainees). The 2014 impact evaluation showed some good results: participants had higher post-training wages, probability of employment, and likelihood of obtaining a formal sector job compared to a control group. However, some evidence suggests that access to the program may be subject to political influence and that the program tends to reallocate existing jobs rather than create new ones. Once administrative costs are factored, the net effects may be negative. (IEG, 2012;⁴¹ World Bank, 2016). Other similar programs include *Chamba Comunitaria* (90,000 beneficiaries, 60 percent women); and *Chamba Joven* (27,000, 70 percent women).

These programs could be strengthened by requiring new jobs to be linked to the sustainable expansion of businesses and by reducing the subsidy cost per job. The 2014 study found that in month four (after the subsidy ended) only 55 percent of *Con Chamba Vivis Mejor* beneficiaries were still in the job. Many firms were taking on the worker temporarily while pay was subsidized, thus possibly displacing unsubsidized workers. Ensuring that participating firms are expanding their total jobs would reduce the risk of substituting unsubsidized workers. This could be done by asking participating firms to present a business expansion plan. There is also a case to be made for having an initial phase where the beneficiary is regarded as a trainee, supported with travel costs and expenses, rather than a full minimum wage.⁴² That would allow the Government to increase program coverage and would also incentivize trainees to perform well so that the employer will take them on as full-time workers at the end of the program.

Honduras also has great potential to improve jobs outcomes for self-employed farmers in rural areas. The World-Bank financed COMRURAL project is an example of how improving market linkages can increase the incomes of small independent farmers. COMRURAL provides matching grants to help commercial agribusiness entities (mainly cooperatives) consolidate and expand their businesses. In Intibuca, potato farmers can earn

Figure 44
Beneficiaries of youth jobs programs



Source: World Bank calculations using information from the Secretary of Labor and Social Security.

⁴⁰ In English: “You live better when you have a job”; formerly named “*Entrenamiento para el Empleo, EPEM*,” Training for Work.

⁴¹ Citing Rozada, M. [2011]. “Evaluación de impacto del programa EPPEM y Análisis Costo-Beneficio.” Draft paper. Inter-American Development Bank.

⁴² The study also evidenced implementation inadequacies and failure to comply with the program design: 27 percent of the youth participating in the program received salaries less than the minimal wage [ESA Consultores 2014].

double the rural minimum wage by selling their crop to the ECARAI commercial cooperative, which in turn supplies supermarkets (Box 6). However, the COMRURAL project's design focuses mainly on the commercial viability of the cooperatives, placing little emphasis on the income gains for the smallholder suppliers. Following the success of Phase 1, COMRURAL has been given additional funding. The next phase of the program could be further strengthened by incorporating explicit metrics linked to the indirect jobs effects of candidate sub-projects.

BOX 6: HOW A POTATO MARKETING COOPERATIVE BOOSTS AND TRANSFORMS SUPPLIER JOBS⁴³

One of the participating cooperatives in COMRURAL is ECARAI, in Intibucá, which has been operating since 2005.

ECARAI only has 26 full time staff but it works with around 300 small potato farmers, with planted areas ranging from two tareas (one-eighth manzana) up to four manzanas.⁴⁴ The coop provides inputs and technical assistance to its members, and helps them to plan the crop cycle to ensure a steady flow of production for producers. It also buys potatoes from non-members to help balance supply. ECARAI operates a processing facility that washes the potatoes, provides quality control, and supplies the main supermarket chains in Honduras, such as Walmart and La Colonia. In 2011, when COMRURAL started its support to the coop's business expansion plan, ECARAI was processing 300 quintals⁴⁵ of potatoes a week; today, that has quadrupled to 1,200 quintals a week. With land productivity of 16 quintals per tarea, a small farmer can receive L.12,000 per tarea in revenue, against L7,500 in costs, a net profit of L.4,500 in each of three planting cycles in the year.⁴⁶ Even the smallest farmers planting two tareas would receive a net income of L.27,000 [US\$1,125] per year. The labor inputs depend on technology choice: a farmer who uses only physical labor to prepare the ground, plant, and harvest the potatoes will use 10 days of labor per tarea/per cycle; or 60 days per year when working 2 tareas. So their daily net earnings would be L.450 [US\$19], well above the agriculture minimum wage of L.205 per day.⁴⁷

Like many commercialization facilities supported by rural development programs in Honduras, ECARAI still has room to grow. At present it is only using one-third of processing capacity. It needs additional markets to expand, and is exploring exports to neighboring El Salvador. It is also considering diversification into other crops, such as carrots. But the main constraint is the need for more input volume, which means bringing in more growers to expand the planted area, using improved tubers and agrochemicals, and following coop quality standards. Even for growers with little additional land available, there is plenty of scope to raise output per hectare (the intensive margin). Potato growers in Costa Rica achieve 40 quintals per tarea, 250 percent above the average output of 16 quintals per tarea reported for ECARAI's growers. But increasing production, whether at the extensive or the intensive margin, requires technical assistance and financing for inputs. This potential to transform the jobs and incomes of smallholder farmers explains why the Government has recently requested large additional financing for COMRURAL.

⁴³ The data in the following paragraphs was collected in a field trip by the study team during June 2018.

⁴⁴ 1 manzana = 0.7 hectares; 16 tareas = 1 manzana

⁴⁵ 1 quintal = 100 lbs

⁴⁶ The exchange rate for the Honduran Lempira is L.24 = US\$1.00

⁴⁷ Using an ox to plough the land reduces the labor time needed for land preparation to two hours per tarea, instead of four days. Bigger farmers may hire tractors at a cost of L.300 per tarea, further boosting labor productivity.



Garifuna women with cocoa derivate food products, northern Honduras



4. POLICY RECOMMENDATIONS TO IMPROVE JOBS OUTCOMES IN HONDURAS

This Jobs Diagnostic report has argued that persistent high poverty in Honduras is linked to poor structural transformation in the Honduran labor market. Over the last two decades, Honduras has moved gradually towards a more integrated economy, and most jobs are now wage jobs. It has also improved educational attainment (especially for girls). Nevertheless, earnings remain low for many Hondurans and the extreme poverty rate is by far the highest in Central America.

Following the extended economic and political crisis Honduras has made important gains over the last four years. It has reduced the level of crime and violence: the homicide rate was more than halved between 2012–2017 and now stands just above 40 per 100,000 population. It has restored good macroeconomic management and has also continued improving the quality of infrastructure and human development services. Between 2014–17, an IMF-supported program was successfully concluded, including fiscal reforms to strengthen revenue generation and adoption of a new Fiscal Responsibility Law. In 2017, the fiscal deficit was less than one percent of GDP, down from 7.5 percent of GDP in 2013. In response, the economy has begun to grow strongly. Real GDP growth reached almost five percent in 2017 (buoyed by domestic consumer and investment demand) and is projected to remain at around four percent for the next few years. Gross domestic capital formation has reached 24 percent of GDP and is projected to continue rising—auguring well for potential acceleration of productivity growth. The aggregate savings rate has shot up from 13.4 percent of GDP in 2013 to 22.3 percent in 2017 (due mainly to fiscal adjustment) and balance of payments has strengthened, so higher investment and growth should be sustainable in the medium term (IMF, 2018).

The key challenge now facing policy makers is to spread the benefits from growth more evenly across the economy, by supporting accelerated jobs transformations for poor Hondurans. The improving macroeconomic backdrop creates an opportunity to address the structural drivers of poverty. The most important problems include:

- High levels of economic inactivity, especially among women.
- The persistence of high informality across all sectors, associated with the under-utilization of labor (underemployment) and low productivity and earnings.

These two problems are related: the poor quality of most jobs is an important driver of low labor force participation rates, especially for women. In all sectors of the economy (agriculture, industry, and services) most jobs are informal, and only agriculture reports a positive trend in average labor productivity. Recent growth has been driven by the movement of labor from very low productivity agriculture towards services, where productivity is somewhat higher. However, much of this labor is moving into relatively low productivity informal services, and, as a result, average productivity in the services sector is falling.

This report argues that there are opportunities to improve jobs for low-income Hondurans both by accelerating the growth of jobs in the formal sector and by improving the quality of informal jobs, through improved market linkages in product, capital, and labor markets. All informal jobs are not alike. We show that earnings from informal wage jobs and from self-employment in household enterprises are generally superior to those from self-employment in agriculture. We also show that poor households can significantly improve their average earnings by intensifying their use of labor either by increasing the intensity of utilization of labor and land, or by diversifying across activities.

These findings suggest a case for a coordinated set of programs and policies to support better jobs outcomes for the poor in Honduras, including (i) macroeconomic and regulatory policies; (ii) labor market programs and policies; and (iii) policies and programs to support jobs growth in labor-intensive sectors, including both formal and informal jobs.

MACROECONOMIC POLICIES AND THE BUSINESS CLIMATE

Honduras should maintain the coherent macroeconomic framework already in place, and continue to improve the business climate and strengthen competitiveness. It should work to simplify requirements for operating businesses. Bureaucratic “red tape” and arbitrariness affect small and medium enterprises (SMEs) disproportionately, and SMEs tend to be relatively labor intensive. Honduras should continue to support reforms on doing business. Continuing with the recent strengthening of the security situation and of the administration of justice (including anti-corruption measures) is another vital aspect of improving the business climate.

In spite of great improvements to ensure macroeconomic stability and sustainability, the country’s growth path remains liable to volatility due to external shocks. Climate change-related shocks can affect the capacity of the agriculture sector to generate and sustain jobs and exert higher pressure of agricultural workers to mobilize into urban services. This can undermine overall productivity. The Government should explore agriculture insurance options, such as parametric insurance, to cover worker losses during a climate shock, to avoid massive migration into cities, and to protect families from falling (deeper) into poverty.

LABOR MARKET PROGRAMS AND POLICIES

Honduras faces important labor market constraints that undermine creation of more formal sector jobs, and arguably prevent youth from low-income neighborhoods to access better jobs.

Several aspects of existing labor market regulations create disincentives to firms to create formal sector jobs. Suggested areas for action to improve the regulatory climate and create better jobs include:

- (i) Honduras’ minimum wage is high compared with all countries in the region. This is likely undermining competitiveness in labor intensive activities and pushing many workers into less-well remunerated informal sector jobs. Honduras should hold the growth of the MW below productivity growth until it is back in line with comparable economies.
- (ii) Another area for action is the simplification and reduction of contingent liabilities linked to formal labor contracts, such as high but uncertain entitlements to severance pay (*prestaciones laborales*), which reduce firms’ willingness to hire workers in the formal sector. It would be preferable to both workers and employers to specify a clear entitlement for severance pay linked to years of service set at a reasonable level not dependent on whether severance is the fault of the worker or the employer. The only losers would be labor lawyers who benefit from legal disputes around “*salarios caídos*” (unpaid salaries), which the present rules create.
- (iii) Honduras also has a relatively high burden of social and regulatory charges, including payroll taxes and social insurance contributions, which further increase labor costs by close to 50 percent. That creates a “tax wedge” between the cost of labor to a formal sector firm and net worker wages, incentivizing both firms and workers to prefer informality. To ameliorate this, Honduras should consider options to reduce payroll taxes. Where possible, social protection entitlements such as health, income support, and pensions should be available to all Hondurans, not just those who work in the formal sector. This could be achieved by increasing general taxation to finance universal social protection coverage, as contemplated in the new Social Security framework legislation.⁴⁸

Suggested areas for action to improve access for low income youth to better jobs include:

- (iv) Push ahead with TVET system (INFOP) reforms to increase the use of private delivery systems and performance-based incentives, including paying training agencies a premium for job placements. There should be more emphasis on training the unemployed and on English training, coupled with strong, independent regulation.

⁴⁸ The case for increasing the use of general taxation [rather than payroll taxes] to finance universal social protection is outlined in the 2019 World Development Report: The Changing Nature of Work [Chapter 5].

- (v) Where lack of higher-skilled workers (such as industrial engineers) creates a bottleneck preventing expansion of firms that would also hire lower skilled-staff, the Government should support skills training (possibly through the University system). But it should also be flexible in allowing firms to use foreign workers to avoid expansion delays. Normally, firms will hire local staff when they become available, since expatriates are costly.
- (vi) Jobs subsidy programs should be reviewed to incentivize job expansion and reduce the risk that the subsidized trainees crowd-out other workers. It would be advisable to lower the benefit level of subsidy programs, so they can cover more youth, and focus the subsidy on hiring and training of previously unemployed workers. Programs that are too subject to political influence should be phased out.
- (vii) Cash transfer programs in high vulnerability urban marginal areas, such as *Bono Vida Mejor Urbano*, should be re-designed to incentivize participation of adolescents in training activities or work.
- (viii) Given the severity of low female labor force participation in Honduras, training and job subsidy programs should promote participation by women, by designing programs to target sectors and job types likely to be attractive to women, providing childcare and personal security guarantees for participants, and carefully monitoring gender data.

SECTORAL AND REGIONAL PROGRAMS

Honduras' jobs problem is rooted, above all, in lack of private investment to create enough good jobs for the emerging labor force. Firms will not necessarily create jobs at a rate that is optimal for Honduras, even if the macroeconomic situation remains positive and the investment climate strengthened, and the regulatory problems of the formal labor market are resolved and training systems improved. So, there is a public policy interest in providing firms with greater incentives to create more good jobs. Possible areas for policy action include:

- (i) Design transparent rules for access to public support (including fiscal exonerations), which seek to leverage the maximum jobs impact out of available funding. Public investment to support private sector development should follow *Maximizing Finance for Development*⁴⁹ principles. The use of tax incentives and reform of the taxation systems to reduce taxation on jobs (such as payroll taxes) should also be analyzed. A general problem of supporting firms with public resources is to know whether the expansion would take place in any case. In that case, the public subsidy simply increases the profits of the firm rather than increasing output or jobs. To maximize the leveraging of additional jobs with available public resources, the Government could consider prioritizing projects with the largest estimated incremental jobs impact per dollar of subsidy. In general, public support should be temporary, aiming to encourage expansion of production and jobs, without creating an ongoing obligation for continuing subsidy. This principle should also apply to fiscal exonerations, which should be strictly time-bound.⁵⁰ Having clear, transparent rules also helps reduce influence peddling between business lobbies and public agencies.
- (ii) Use efficient approaches to financing private investments. Maximizing finance for development also implies helping financial markets provide capital for expanding firms efficiently, using such instruments as partial risk guarantees rather than interest rate subsidies. When the chosen instrument is a subsidized loan, it is preferable to channel public support at mezzanine level and work with private financial intermediaries (such as cooperatives) at retail level due to the likelihood of default on loans from public entities. The proposal for FONAPROVI (the Fondo Nacional de Producción y Vivienda) to assume the retail lending activities of BANADESA (Banco Nacional de Desarrollo Agrícola) may expose it to this sort of risk. But in some cases, for example, for supporting SME expansion, there may be a case for allocating grants instead of loans to strengthen firms' equity and make them bankable. But grants should be allocated using transparent rules linked to business expansions and should normally be linked to requirements to mobilize the lion's share of capital into private markets.
- (iii) Promote labor-intensive technology. There are often alternative options for the way a good is produced, whether a capital good or a consumer good. Given the large surplus of under-utilized labor in Honduras, preference should be given to more labor-intensive options. For example, in construction, it would be advisable to review training

⁴⁹ *Maximizing Finance for Development* [MFD] is an approach to development finance, supported by the World Bank Group and by IDA donors, which argues for using public policies and resources to maximize the leverage of privately-funded investment.

⁵⁰ The high level of "tax expenditures" (that is, exonerated taxation) is an important problem for fiscal management in Honduras [IMF, 2018].

programs and regulations to support “green construction” approaches in housebuilding, which maximize the use of labor inputs (including in the production of building materials). Similarly, in road maintenance, more labor-intensive approaches should be promoted where possible, including through revival of the Road Maintenance Microenterprises program that worked very well but was dropped due to budget problems in the *Fondo Vial*. Plan 20–20 should also consider broadening support to additional sectors that offer high potential for job creation.

- (iv) Take indirect jobs into account when analyzing project jobs impacts. This is particularly important for projects that have upstream value chain linkages to primary production, such as jobs in agricultural self-employment that are enhanced by provision of inputs, technical assistance, and guaranteed markets. Projects like COMRURAL have significant indirect jobs impacts, beyond the commercial agribusiness entities directly supported, due to upstream value chain linkage effects. Such linkages through product markets (rather than through labor markets) are an important way to improve the jobs and earnings of small-scale agricultural producers by allowing them to intensify use of their household labor and increase land productivity (output per hectare). Agribusiness and tourism both offer good potential for such linkages.
- (v) Include job creation in economic appraisal of local and regional economic development and rural infrastructure projects. At present, for example, the rate of return estimates used for the economic appraisal of roads projects (using the HDMO model) are based on projected increases in traffic flows due to reduced journey costs. However, if a new road leads to expanding economic activity in the corresponding region, the projected income gains for low-income workers should also be factored into the analysis.
- (vi) Facilitate integrated support and cross-agency cooperation to help lagging regions improve jobs. Where there is a plausible opportunity for sustainable economic expansion, based on locational analysis of comparative advantages, national agencies should work with local authorities to design coordinated support packages. In regions isolated from economic development, there may be multiple binding constraints that need to be addressed simultaneously before sustainable jobs can be created. For example, the labor force may lack relevant skills and work experience; and there may be few firms operating in the region. These two factors reinforce one another. So, policymakers might need both to help workers acquire the right skills while helping firms to overcome constraints, such as bad infrastructure, before investment can happen. In other cases, it may be better to help workers move to locations with greater competitive potential by supporting economic development of secondary cities.



Honey cooperative near Corquin

REFERENCES

- Cuberes, D. and M. Teignier. (2016). "Aggregate Effects of Gender Gaps in the Labor Market: A Quantitative Estimate." *Journal of Human Capital* 10(1): 1-32.
- de Hoyos, R., Rogers, H., and M. Székely. (2016). *Out of School and Out of Work : Risk and Opportunities for Latin America's Ninis*. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/22349>. License: CC BY 3.0 IGO.
- ESAConsultores. (2014). *Evaluacion de Desempeño del Programa Con Chamba Vivis Mejor, a seis meses de su implementacion*, ESA Consultores.
- Fields, Gary. (2018). "The labor market effects of educational expansion in an extended Harris-Todaro model." Cornell University Working Paper.
- Gasparini, L. and L., Tornarolli. (2009). "Labor informality in Latin America and the Caribbean: Patterns and trends from household survey microdata." *Revista Desarrollo y Sociedad*, (63), pp.13-80.
- Hernandez, M. A., Sousa, L., and J. H. Lopez. (2016). "Honduras -Unlocking economic potential for greater opportunities: Systematic Country Diagnostic" (Vol. 2) (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/519801468196163960/Honduras-Unlocking-economic-potential-for-greater-opportunities-systematic-country-diagnostic>
- Independent Evaluation Group. (2012). "Youth Employment Programs: An Evaluation of World Bank and International Finance Corporation Support." Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/12225> License: CC BY 3.0 IGO.
- ILO. (2013). *ICLS Resolution I -Resolution concerning statistics of work, employment and labour underutilization*. The 19th International Conference of Labour Statisticians.
- IMF. (2018). *Honduras -Staff Report for the 2018 Article IV*. IMF Country Report No. 18/206. Washington, DC: International Monetary Fund.
- InSight Crime. (2019). *InSight Crime's 2017 Homicide Round-Up*. <https://www.insightcrime.org/news/analysis/2017-homicide-round-up/>.
- Islam, R. (2004). "The nexus of economic growth, employment and poverty reduction: An empirical analysis." *Issues in Employment and Poverty Discussion Paper 14*. Recovery and Reconstruction Department International Labour Office, Geneva.
- KNOMAD. (2018). *Migration and Remittances Data*. <https://www.knomad.org/data/migration/emigration>.
- Robalino, David A.; Walker, David Ian. (2017). "Economic Analysis of Jobs Investment Projects. Jobs Working Paper; No. 7. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/28219>.
- Rozada, M. (2011). "Evaluación de impacto del programa EPEM y Análisis Costo-Beneficio." Draft paper. Inter-American Development Bank. World Bank. *Business Reforms in Honduras*. <http://www.doingbusiness.org/reforms/overview/economy/honduras>.
- Sousa, Liliana D. and M. Muller. (2018). "Towards Equal? Women in Central America." (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/940661534521240623/Towards-Equal-Women-in-Central-America>.
- Sousa, Liliana D. (2018). "La actividad económica de la mujer en las zonas Rurales de Honduras." Grupo Banco Mundial. <http://documentos.bancomundial.org/curated/es/399191490108962508/pdf/103239-SPANISH-V2-Honduras-SCD-Spanish.pdf>
- S4YE. (2017). *Stock Take of Evidence on what Works in Youth Employment programs*. Knowledge Brief Series.
- UNICEF. (2018). *Uprooted in Central America and Mexico migrant and refugee children face a vicious cycle of hardship and danger*. UNICEF-CHILD ALERT.

World Bank; International Monetary Fund. (2013). Global Monitoring Report 2013: Rural-Urban Dynamics and the Millennium Development Goals. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/13330>
License: CC BY 3.0 IGO.

World Bank. (2016). The World of Public Employment Services, Inter-American Development Bank (IDB); World Association of Public Employment Services; Organisation for Economic Co-Operation and Development.

World Bank. "Business Reforms in Honduras." Doing Business. Measuring Business Regulations. <http://www.doingbusiness.org/reforms/overview/economy/honduras>.

World Bank. (2016). Honduras Enterprise Survey. <https://datacatalog.worldbank.org/dataset/honduras-enterprise-survey-2016>.

World Bank. (2019). World Development Report 2019: The Changing Nature of Work. Washington, DC: World Bank. doi:10.1596/978-1-4648-1328-3. License: Creative Commons Attribution CC BY 3.0 IGO.

World Bank. (2019). World Development Report 2019: The Changing Nature of Work (Chapter 5). World Bank.

World Economic Forum. (2017). World Economic Forum's Executive Opinion Survey. Marsh and McLennan Companies; Global Risk Center.

"You live better when you have a job"; formerly named "Entrenamiento para el Empleo, EPEM", Training for Work.



ANNEX A: JOBS DIAGNOSTICS METHODOLOGY

Jobs Diagnostics (JDs) use a set of complementary tools to analyze labor demand and supply and identify challenges and opportunities for creating better jobs, especially for poor people and vulnerable or excluded groups. This annex outlines the elements of the standard JD methodology and comments on how it was adapted for the Honduras study, given data limitations.

MACRO-ANALYSIS AND STRUCTURAL TRANSFORMATION

This part of the JD toolkit examines aggregate trends in employment and productivity. Economic drivers are examined at sector level, decomposing employment and productivity growth at various levels of disaggregation. The analysis uses two methodological approaches:

- (a) Growth decomposition tool. This diagnostic tool extends the decomposition tool developed in PRMED. It incorporates demographic and labor force projections—for example., working-age population, labor force participation, and employment rates—to assess productivity growth and potential employment outcomes over the short or medium term. Historical productivity growth is decomposed by sector—for example., productivity changes both within and across sectors—as well as by types of employment—for example., rural/urban, wage/self-employed. The resulting historical patterns point to options for productivity gains and quantify the level of job creation necessary to absorb a growing population with various skills profiles and geographic distributions. Data inputs: National Accounts, Household surveys, WDI (DataBank).
- (b) Firm growth and the demand for labor. Firms' growth, investments, and technological choices, including capital-labor ratio, are critical to generating better jobs. The standard JD analysis uses firm-level data to identify types of firms and sectors are creating jobs and contributing to productivity and earnings gains, and how these trends compare to other countries. JD analysis also identifies possible constraints to private sector competitiveness and hiring more workers. Unfortunately, in the case of Honduras, the business census is almost 20 years out of date, and surveys of economic establishments used for the National Accounts System present inconsistencies, so firm-level data available does not allow full standard analysis of these issues. However, the team could analyse household survey data over time on sectors where people work (public or private; and what productive sector they are in); how much they earn (a proxy for labor productivity); and size of establishments. The demand-side analysis also drew on the World Bank's Enterprise Survey data to compare characteristics of formal private sector firms in Honduras with those in neighbouring countries; to comment on sector distribution of jobs growth; and to identify policy and investment climate constraints to growth according to private sector respondents.

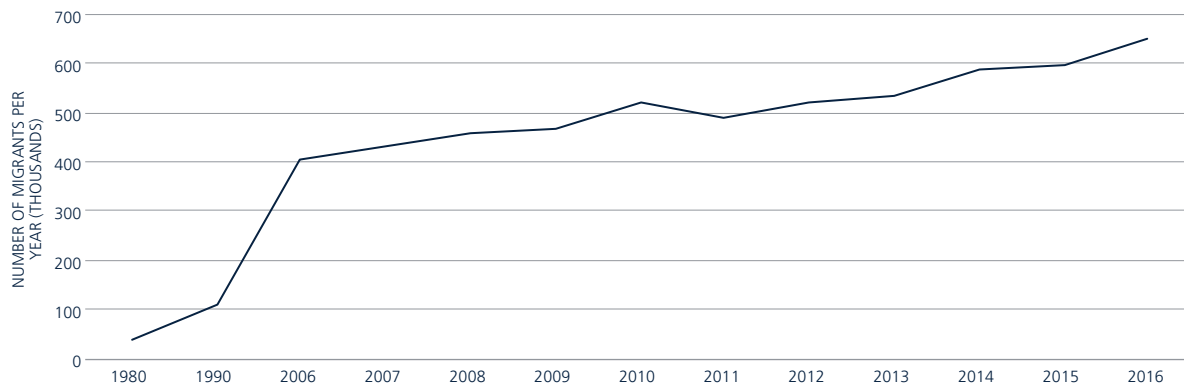
LABOR SUPPLY AND ACCESS TO JOBS

The composition of the labor market and trends in different sectors sheds light on who has access to which type of jobs, and what constraints affect different groups in the labor market, by gender, age, education, region, and poverty status/income quintile. This section provides a detailed analysis of the supply side of the labor market using household-level survey data, and looks at key labor market outcomes for different population groups

across regions, changes over time, and correlates of these outcomes (for example, correlation with skills and work status). The analysis describes characteristics of the working-age population including: participation rates; employment rates; type of job (formal wage, informal wage, self-employed, employer); occupation and sector; and earnings. It analyses the role of informal sector jobs and household enterprises. These indicators are reported for different population groups based on gender, age, education, region, and poverty status/income quintile. Data inputs: Permanent Household Survey data (2001–2016).

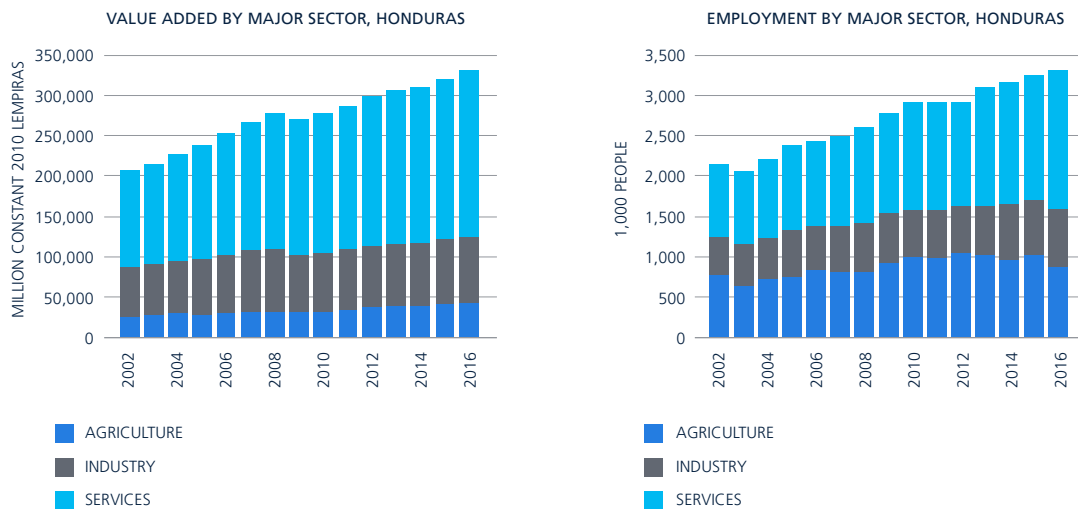
ANNEX B: STATISTICAL ANNEX

Annex Figure 1
Number of migrants to the United States, 1980–2016



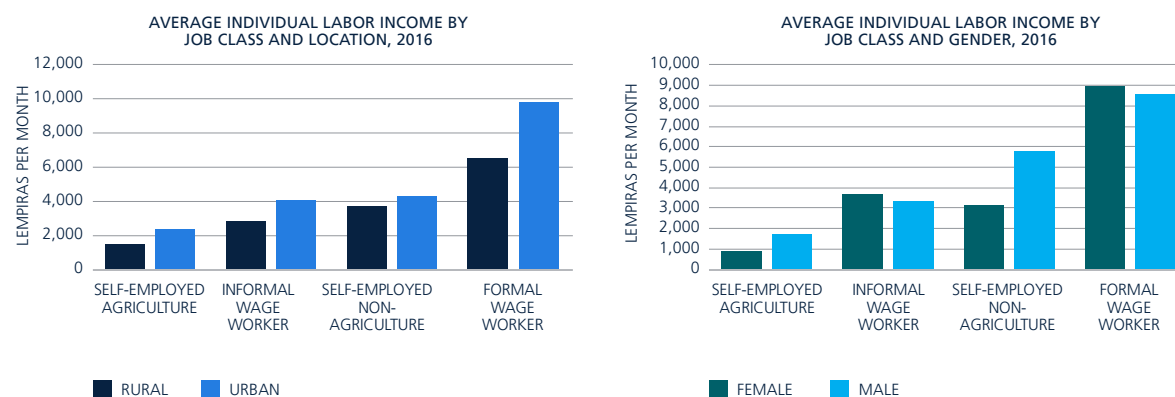
Source: Migration Policy Institute (MPI) Data Hub.

Annex Figure 2
Value Added and Employment by Major Sector, Honduras



Source: Jobs Structure Tool, using EPHPM data, I2D2 standardization.

Annex Figure 3
Average individual income across job classes, by location and gender, 2016



Source: Authors using EPHPM SEDLAC standardization 2016.

Annex Table 1
Share of workers by category of productive informality, 2001–2016

Year	Share of formal	Share of informal	Share of missing information	Total
2001	41%	57%	2%	100%
2002	39%	59%	2%	100%
2003	38%	59%	3%	100%
2004	44%	54%	2%	100%
2005	38%	57%	4%	100%
2006	41%	56%	3%	100%
2007	43%	54%	4%	100%
2008	44%	56%	0%	100%
2009	39%	61%	0%	100%
2010	39%	61%	0%	100%
2011	38%	62%	0%	100%
2012	36%	62%	2%	100%
2013	37%	61%	2%	100%
2014	38%	59%	2%	100%
2015	36%	62%	2%	100%
2016	40%	56%	4%	100%

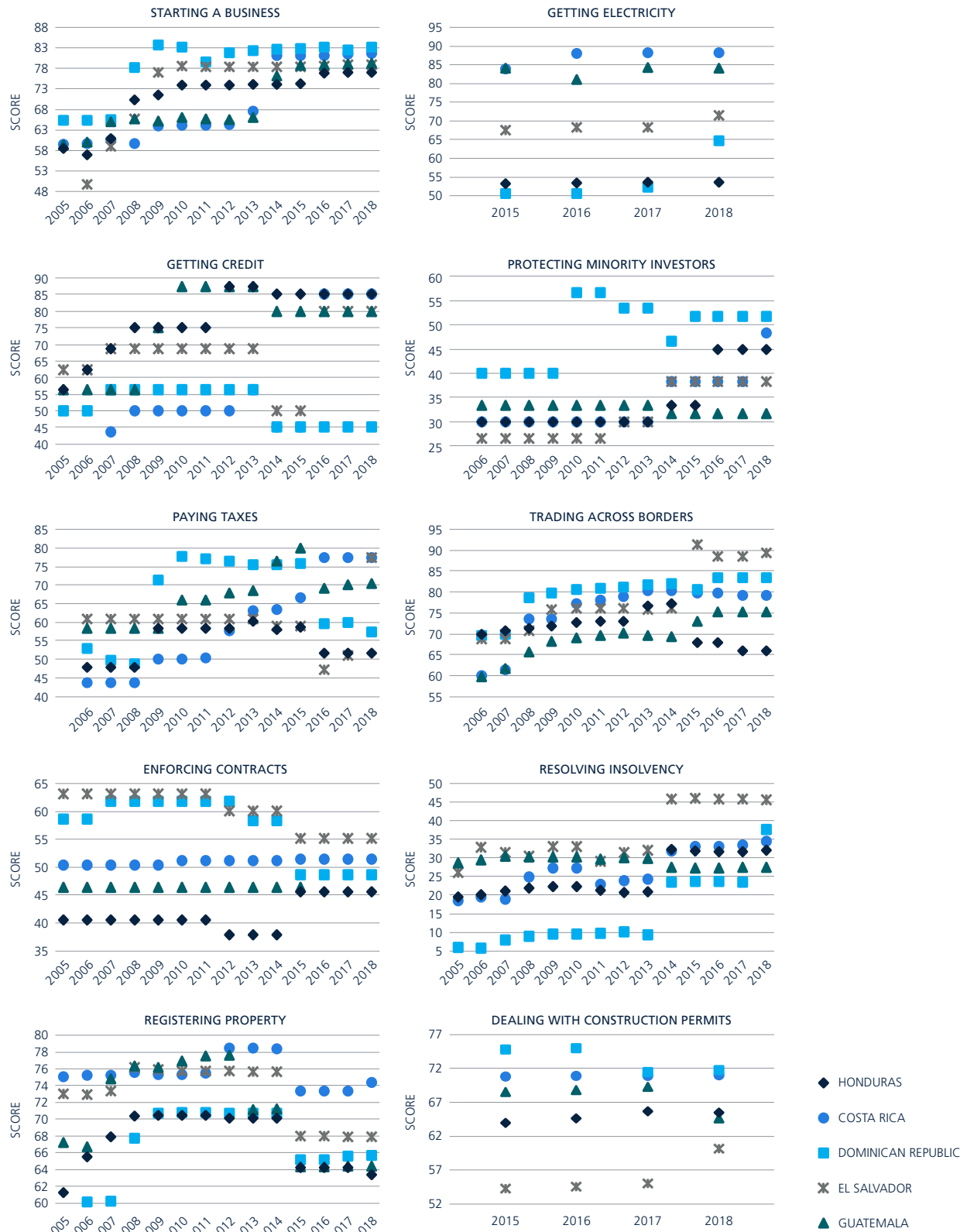
Source: Authors using EPHPM SEDLAC standardization 2001–2016.

Annex Table 2
Detailed results on job class combinations within households, 2016

Job class combinations	Average household labor income			% household members with labor income			Distribution of households		
	Total	Urbano	Rural	Total	Urbano	Rural	Total	Urbano	Rural
Only wage formal	5,110	6,062	3,390	56%	59%	49%	35.1%	41.6%	26.9%
Only self-employed non-agriculture	2,609	2,706	2,445	63%	63%	63%	14.0%	16.3%	11.1%
Only wage informal	2,037	2,578	1,612	58%	61%	55%	13.8%	11.7%	16.4%
Self-employed non-agriculture + wage formal	5,113	5,493	4,400	76%	75%	78%	10.6%	12.5%	8.3%
Wage formal + wage informal	4,167	5,043	2,900	72%	74%	68%	7.3%	7.9%	6.7%
Only self-employed agriculture	666	978	640	39%	37%	39%	6.5%	1.2%	13.3%
Self-employed non-agriculture + wage informal	2,586	2,872	2,209	79%	80%	77%	4.9%	5.3%	4.4%
Self-employed agriculture + wage informal	1,137	951	1,152	59%	62%	59%	2.2%	0.4%	4.5%
Self-employed non-agriculture + wage informal + wage formal	4,101	4,358	3,722	78%	78%	78%	1.7%	1.8%	1.6%
Self-employed agriculture + self-employed non-agriculture	1,397	1,298	1,414	68%	81%	66%	1.6%	0.5%	2.9%
Self-employed agriculture + wage formal	2,485	2,514	2,479	67%	69%	66%	1.2%	0.5%	2.0%
Self-employed agriculture + self-employed non-agriculture + wage informal	2,146	9,174	1,535	70%	60%	71%	0.4%	0.1%	0.9%
Self-employed agriculture + wage informal + wage formal	2,055	2,296	2,003	66%	81%	63%	0.4%	0.1%	0.7%
Self-employed agriculture + self-employed non-agriculture + wage formal	2,491	2,354	2,559	65%	63%	65%	0.2%	0.2%	0.3%
Self-employed agriculture + self-employed non-agriculture + wage informal + wage formal	1,108		1,108	80%		80%	0.0%	0.0%	0.0%

Source: Authors using EPHPM SEDLAC standardization 2001–2016.

Annex Figure 4
Doing Business Indicators for Honduras and comparator countries in the region, circa 2006–2018



Source: Created by authors with information from the World Bank's Doing Business Indicators.



Address: 1776 G St NW, Washington, DC 20006

Website: <http://www.worldbank.org/en/topic/jobsanddevelopment>

Twitter: @WBG_Jobs

Blog: <http://blogs.worldbank.org/jobs>