

Honduras

Status Index (Democracy: 3.4/ Market economy: 2.6)		6.0	Management Index		4.6
System of government	Presidential Democracy		Population	6.6 mill.	
Voter turnout	66.3 % (Presidential elections)		GDP p. c. (\$, PPP)	2,830	
Women in Parliament	5.5 % (2003)		Unemployment rate	4.1 % (2000)	
Population growth^a	3.0 %		HDI	0.667	
Largest ethnic minority	4.23 %		UN Education Index	0.71	
			Gini Index	59.0 (1998)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

President Ricardo Maduro is the sixth democratically elected president in Honduras since the nation returned to civilian rule in 1980. Under the hegemony of the Liberal Party, which together with the National Party has a potential for securing some 90 % of votes, an election routine has evolved that is increasingly free of ballot rigging, giving the nation a great deal of stability. Following many years of military conflict within the Central American crisis, with a massive presence of the US army and Contra rebels fighting the Sandinista regime in neighboring Nicaragua, Honduras embarked on the difficult path toward democratizing its own society.

However, the period from 1998-2003, which is the focus of this study, represents a break in Honduras' history. The devastation wrought by Hurricane Mitch in 1998 severely damaged Honduras' social and productive infrastructure, setting the country's economic development back by several years. Despite crisis management assistance from the international community and debt relief granted under the World Bank's HIPC initiative, Honduras has fallen back into last place among mainland nations on the American continents with respect to the Human Development Index.

This study on the status of democratic and economic transformation during the last five years has reached the conclusion that development in absolute terms of goal achievement has stagnated. In light of the difficult political and economic circumstances under which the key players must achieve transformation, even stagnation should be considered a management success because the erosion of standards already reached in most of the assessment areas was prevented. The

transformation process was successful with respect to some of the performance criteria. The decision-makers leaving office now are leaving behind key work that is yet to be done in the areas of the rule of law, stabilization of the patterns of democratic representation and attitudes among the citizens, reform of the current organization of market and competition and ensuring the sustainability of the nation's economic development.

2. History and characteristics of transformation

The processes of economic and democratic transition have been incongruent in Honduras, not least in the wake of the devastation caused by Hurricane Mitch and its implications for the local economy. As a result, these processes have been unable to provide each other mutual support. The prevailing structure of market and competition remains largely ineffective. In addition, the focus on export commodities such as bananas and coffee and the outward processing trade (*maquila*) sector does not allow sufficient regulatory and incentive programs that might otherwise enable better management of the national economy. Honduras' *democratic transformation* began in the early 1980s with the transition to civilian rule.

However, broad segments of the population have not yet been integrated into the democratic transformation. The result is an electoral democracy which has little support from a civil society capable of self-articulation. Only the labor organizations for banana plantation workers have, at times, managed to exert pressure on the dominant elite.

The election victory of President Carlos Roberto Reina (1994-98) heralded a major change in course toward transformation. Until then, the democratic system had evolved under the aegis of the military. Reina was able to break through the military's hegemony by abolishing compulsory military service. Measures such as the closure of the military's dreaded secret service (DNI) and the liberation of the telephone company Hondutel from military control were completed by Reina's successor Carlos Flores Facussé (1998-2002). Facussé appointed a civilian defense minister and eliminated the post of commander-in-chief of the military and the Superior Council of the armed forces. This put the nation on a new track toward democratic transformation, one which was increasingly free of autonomous police and military enclaves.

However, many important reforms have not yet been achieved. The fight against pervasive corruption, revamping an inefficient and unchecked justice system, and streamlining public administration are reforms that have not been addressed and continue to weigh heavily on relations between the citizens and the state. For the first time since the election of President Ricardo Maduro of the National Party in 2002, Honduras has a president whose own party does not have a sufficient

majority in the Congress, and has had to enter into a coalition government with the Christian Democratic Party (*Democracia Cristiana, DC*). This situation has allowed smaller political parties to penetrate the traditional large-scale constituencies held by the Liberal Party and the National Party, and thus expand the political spectrum by giving a voice to groups that had otherwise been excluded from the political process.

Honduras' *economic transition* from a commodities producer to an economy that is increasingly integrated into the global economy through the expansion of the *maquila* sector has proven unsustainable. The country still has a low level of economic productivity. It is also extremely dependent on global coffee and banana prices and the prevailing wage differential, the latter being important for the establishment or relocation of *maquiladoras*. Without the influx of foreign currency in the form of \$600 million in bank transfers from Honduran citizens living abroad, the country would hardly be able to manage the massive problems with its balance of payments, which have resulted from a contraction in demand and low commodities prices on the world's markets.

In October and November of 1998, Hurricane Mitch destroyed much of the country's infrastructure (60 % of all roads and approximately 100 bridges were destroyed), and Honduras has only been able to rebuild a very limited portion of the infrastructure in the interim. The 1.4 million people who lost their homes to the disaster have added to an already staggering 50 % of Hondurans living below the poverty line. This interrupted path toward growth as well as a production structure that lends itself to stagnation and which has experienced no additional impetus for expanding its very short value chain since the *maquila* sector boom in the 1990s, highlight the limitations of a development model that is characterized by extreme dependence on external forces and low internal potential for expansion. Small and medium-scale industries have not yet managed to lay basic groundwork for productivity and a quality of production that would make Honduran goods attractive on the Central American market.

Honduras lacks a promising economic policy, and until it develops one, it will not be able to embark on a sustainable path toward modernization. The debt situation, the public deficit and a unilateral process of economic internationalization are robbing the country of its chances for future development. What Honduras' economic transformation needs most are key reforms such as a restructuring of the public sector, increased competitiveness and a turn to a development path that places a larger share of the value-added chain within Honduras.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Honduras has made progress in some of the areas evaluated with regard to political transformation. Transformation deficiencies remain in the areas of political representation, the rule of law, and securing the state's monopoly on the use of force. Some indicators of democratic stability have retrograded somewhat, but not to any extent that could jeopardize the system as a whole.

3.1.1 Political regime

(1) *Stateness*: Military autonomy was largely suppressed during the period under review. Even the budgetary autonomy of the armed forces, which had persisted until 1998, was placed under the control of the Congress. However, the state's monopoly on the use of force is limited due to the emergence of paramilitary groups in the northeastern part of the country (Department Olancho), which defend large-scale landowners. Security problems have highlighted the limited effectiveness of the police forces, so that self-help mechanisms often take hold. Access to arms is made easier by the presence of firearms left over from the days of the Central American conflict. Moreover, there is a strong presence of foreign troops from US military bases and these troops are largely outside the control of Honduran government, even outside the bounds of the military "Security Zone."

All citizens have the same civic rights, but ethnic minorities are often the victims of discrimination when it comes to implementing these rights. The definition of citizenship and who qualifies as a citizen is largely accepted, although the different identities of the Miskitos, Garífunas, Chortí and Lenka on the Atlantic coast represent a particular challenge to the equal treatment of all citizens. The murder of leading *indígena* representatives in 1999 and the discrimination of *indígenas* with respect to land access hobble the exercise of their civil rights. The efficiency of the administrative and judicial systems, and of public safety and order, are limited. The necessary structural reforms are making insufficient progress and will require reformers to overcome fierce resistance from within the public sector, which is marked by patronage.

(2) *Political participation*: Universal active and passive suffrage is safeguarded and, so far, regular free and fair elections have been carried out despite the doubts that have occasionally been expressed. The elected government respects the principles of an open and competitive electoral process, but still does not command the effective power to govern, despite the suppression of the military. Veto powers held by important economic groups and drug trafficking interests within the military have limited the state's full exercise of control. No political parties are prohibited and freedom of association is safeguarded. However,

political and civic organizations place themselves at high risk when they brush up against the established interests of social and political power groups.

Unions are subject to extreme repression, particularly in the banana plantations. ILO conventions are often violated in this sector and in the *maquila* sector. On the whole, the political system lacks sufficient permeability to take up and deal with the interests of various groups, particularly ethnic groups. Within the democratic order, a media landscape has developed that is based on freedom of opinion and freedom of the press and has increasingly managed to avoid intervention from the state or various interest groups.

(3) *Rule of law*: The balance of power is established in the constitution, but the judiciary is not yet independent. Despite the fusion of the three controlling bodies (*Contraloría General de la República*, *Dirección de Probidad Administrativa*, *Oficina de Bienes Nacionales*)—which had been mutually independent—into a single “Supreme Court” (*Tribunal Superior de Cuentas*, TSC), the parties still have a strong influence on the selection of the executive board of the justices. The activities of the judicial bodies are partially and occasionally impaired in favor of the government or important interest groups.

The position of judges is not sufficiently professionalized and previous attempts to ensure accountability through the judiciary have been unsuccessful. The Maduro government has made visible efforts in this direction, but President Reina’s lofty goal of a “moral revolution” had already been quietly laid to rest by his successor Flores. As in the other Central American countries, with the exception of Costa Rica, political and bureaucratic corruption is very high and citizens consider fighting corruption to be one of the most urgent problems impairing good governance.

But corruption is not being prosecuted in the criminal courts to a degree that gives the justice system credibility and members of the political, economic and military elites continue to enjoy particular impunity. Civil liberties are severely limited by the fact that government actions are inconsistent with legal standards and by the administration’s selective application of prevailing law. The presence of youth gangs, the dominance of organized crime, and persistent corruption within the judiciary—despite the fact that more than 200 judges have been replaced—prevent the administration from being predictable, and guarantees under the rule of law from being safeguarded.

Judges who take on cases of human rights abuses have faced death threats and violent attacks. Judicial rights, in particular the right to due process of law, are only partially safeguarded. Widespread lawlessness—the murder rate is more than eight times the global average—has led to an unchecked increase in private security forces, who have themselves been held responsible for offenses as grave as the murder of hundreds of street children.

3.1.2 Democratic stability

(1) *Institutional stability:* With respect to the institutions of an electoral democracy, the democratic institutions in Honduras are largely stable. A military coup is now considered unlikely. However, the limitations already mentioned regarding the rule of law and, to some extent, stateness, are a condition of instability. In connection with the democratically-elected government's low overall level of efficiency, they fan the flames of discontent within an impoverished population.

Individual institutions of the democratic state—first and foremost an independent judiciary—have not yet been fully accepted by all of the key players. Instead they have been circumvented. The same continues to apply particularly to the military, which is only slowly being made subject to civilian criminal law. The social and political elites have at least come to terms with the existing level of formal democracy in the past few years.

(2) *Political and social integration:* The deficiencies in terms of the institutional consolidation of Honduran democracy are tightly linked with shortcomings in the area of political representation and the development of a civil culture. Until the 2001 elections, the party system in Honduras was essentially a two-party system that was dominated by the *Partido Liberal* (PL) and the *Partido Nacional* (PN). Since the 1981 elections, the two parties combined had garnered more than 90 % of all votes and seats in the Congress. For a long time, the small parties with a Christian-social, social-democratic or left-leaning orientation played little more than a sideline role in Honduran politics. This all began to change with the 2001 election, because unlike his predecessors, President Maduro depends on a congressional coalition.

Nevertheless, the very moderately fragmented party system remains characterized by a relatively low level of organizational stability, underdeveloped ability to form party platforms, lack of rootedness in society, considerable weaknesses with respect to social integration, and strong tendencies to focus on personalities and patronage. The democratic system's responsiveness is rather low. In fact, the political elites tend to view electoral victories as a blank check with which to rule as they please without outside intervention until the next election. Thus, government institutions are politicized by the parties and viewed as the spoils of political victory.

The landscape of interest groups is clearly dominated by the prevailing economic interests, including external ones. A stronger, more dynamic civil society is only slowly beginning to emerge in Honduras. But Honduran society continues to bear

the weight of an authoritarian legacy and severe poverty. As in the other poor countries of Central America, human rights activists continue to face reprisals.

Positive is this: despite the low level of efficiency in objective terms, of both the political system and the economy, 50 % of the population embraces the idea of democracy, putting Honduras at the same level as the Latin American average, and the population has fairly clearly rejected any further experimentation with authoritarian rule. Nevertheless, authoritarian patterns continue to play a formative role in the country's political culture and other social relationships. And that is why the detached political elite are not the only ones who tend to view genuine democratic values such as tolerance, pluralism and political discourse with a certain degree of distrust.

3.2 Market economy

Honduras has made very little progress in terms of transforming its economic system. Not least in the aftermath of the Hurricane Mitch catastrophe, all energies were focused entirely on rebuilding the infrastructure, and not on forging a strategy of structural change. Transformation deficits exist in the areas of the competitive order, establishing the nation's competitiveness, reforming the banking and capital markets, and fighting corruption and a bloated public sector.

3.2.1 Level of socioeconomic development

The key indicators suggest a low level of development. Honduras' level of development, as measured by the HDI, does not provide citizens with sufficient development opportunities. Fundamental social exclusion due to poverty, lack of education or gender-related discrimination persists, although there have been visible improvements over 1960s data. Along with Panama and Guatemala, Honduras still has the most unequal distribution of income among Central American countries. This, in turn, has a long-term negative impact on opportunities for upward mobility. The 1990s policy of structural adjustment drove the country deeper into debt, so that Honduras still faces a huge debt problem (\$4.7 billion) despite the HIPC initiative. And the problem has shown no structural improvement due to the tradition of covering public deficits with loans and development aid funds.

3.2.2 Market structures and competition

The foundations of free-market competition are safeguarded only to a limited degree. The formally dense regulation of the economy does not accurately reflect the state's ability to enforce the rules. Family allegiances and coalitions of interest groups rule the economic stage in the different regions of Honduras, but they are not pooling their resources when it comes to economic investments and decisions for the future. On the contrary, interest groups stonewall each other, which is particularly visible in the confrontation between the agricultural oligarchy and its connection with banana multinationals on one side and the *maquila* sector, which is heavily settled in San Pedro Sula, on the other. This situation of confrontation, which has its roots in the nation's social structures, cannot make a positive contribution to a government competition and development policy.

During the period of financial sector restructuring, the National Commission of Banking and Insurance had to intervene in the case of two insolvent banks. Stockholders lost everything and massive transfers of public money were necessary to cover private deposits. Foreign trade was liberalized as part of the structural adjustment programs. The conditions for foreign investment correspond to an international standard, particularly with respect to *maquilas*, in order to ensure Honduras' ability to compete with other locations (especially Caribbean ones).

3.2.3 Stability of currency and prices

During the period of this study, the inflation and exchange rate policy pursued by the government brought only very limited success. The inflation rate, which was 23.8 % in 1996, was reduced to around 7.6 % in 2002, but the figures for 2003 are expected to be higher. The independence of the Central Bank is not yet assured. The government's fiscal and debt policy remains a vulnerable aspect of government policy. While the short-term currency position has improved, the budget deficit—at 5.2 % of GDP in 2002—is still a key focus of efforts to balance the budget. Honduras will continue to depend on international financial organizations to help it gain the upper hand over its debt situation.

3.2.4 Private property

Private property rights and the acquisition of property are, in principle, well defined. However, their safeguarding and enforceability are on precarious footing. As a result of shortcomings in ensuring the rule of law and protecting legal claims beyond due process, which is usually provided, a lack of respect for private property rights is a major problem in Honduras. Trials often last years and it is not uncommon for them to be influenced by corruption. In addition, local power

structures—even civic ones—are still able to manipulate justice through selective use of resistance. The privatization of previously state-run services has made only marginal progress, although the reduced economic presence of the military has certainly improved opportunities for private economic activity.

3.2.5 Welfare regime

Social policy remains underdeveloped in Honduras. Neither in education nor in the fight against poverty has much been achieved beyond standard programs for promoting small and medium-sized businesses. This is especially significant in light of the demographic turbulences and population shifts following the Central American conflict and natural disasters. Small networks that have attempted to deal with the population's hardships have proven insufficient. This is because beyond short-term management of acute crises, no progress has been made toward establishing a social balance or equality of opportunity. Discrimination against women remains a problem that is manifest in everyday life. The emergence of violent youth gangs is daily testimony to the fact that young people are denied access to education and jobs.

3.2.6 Strength of the economy

The impact of Hurricane Mitch resulted in a worsening of Honduras' macroeconomic fundamentals at the beginning of the period of this study. But in 2000, a 4.8 % growth rate indicated that the tide had turned toward the positive. This growth was fueled by aid money but also by the expansion of the *maquila* sector, which brought about an economic upswing through increased employment and foreign investment. But the contraction of the global economy after 9/11 and the economic slowdown in the USA also retarded growth in Honduras. In 2002, growth had slipped to just 2 %.

The macroeconomic fundamentals are still under control, but at a relatively high level in terms of the debt situation. Fluctuations in the balance of trade are a direct result of a development model that is focused on commodities exports. A drop in coffee, tobacco or banana prices immediately throws the current account out of balance.

3.2.7 Sustainability

Environmental awareness is severely underdeveloped both in Honduran society and among lawmakers. Particularly in tobacco and banana production, natural resources are systematically overexploited, and the issue is seldom the subject of public debate. Environmentally sustainable growth is not on the national agenda,

though the aftermath of Hurricane Mitch would have been an excellent opportunity to re-orient infrastructure policy. Environmental concerns clearly take a back seat to growth considerations. A research and technology policy, a comprehensive educational infrastructure, and the development of human capital are all gaps in Honduras' development. As long as these gaps remain, the country is hindering its options for expanding its portion of the value-added chain.

4. Trend

(1) *Democracy*: During the period of this study, Honduras made noticeable progress toward improving the quality of its democracy, particularly with respect to reshaping civilian-military relations. Issues that remain unresolved include securing the state's monopoly on the use of force, developing an efficient and comprehensive administrative system, eliminating deficits in the rule of law, and ensuring public safety and order. Enclaves of power politics and self-justice could not be eliminated and their latest reemergence documents the obvious shortfalls in this area. Free and fair elections, the democratically elected government's effective power to govern, and a peaceful change of government have been achieved.

On the other hand, the forms of citizen participation and coordination do not go far enough, as they often have little more than symbolic character. The development of civic democratic structures as the foundations for a party-based democracy has made only very slow progress and faces strong opposition from established interest groups in a highly polarized social structure. The established interest groups are limited in their ability to reach a consensus. Certain social groups like the unions (particularly those on the banana plantations) face massive opposition and are obstructed in their efforts, in violation of ILO standards.

Alternative forms of labor organizations, such as the *solidarismo*, are tolerated by the government and even receive some support. As a result, there is a significant imbalance among the society's interest groups. Foreign pressure groups like the banana multinationals, the *maquila* companies, and even tourism operators are able to assert their interests in social and political arenas. The established parties continue to control the political debate, although the current president's minority position in Congress could give rise to a new mode of coalition-building, and thus of political conflict resolution.

(2) *Market economy*: The fundamental indicators of development for the period under review show a slight improvement after the collapse caused by Hurricane Mitch. On the whole, economic development has remained stagnant. As the economy is highly dependent on export trade, it doesn't seem capable of triggering internal development or generating its own momentum. The same

applies to sustainability indicators. The Gini index has remained unchanged, reflecting the inflexible character of the country's unequal social structure.

The institutional framework for free-market activity has changed very little. A progressive dynamic for reshaping this framework is not apparent and the deficits with respect to the economic and competitive order persist.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN education index	Political representation of women ^a	GDP p.c. (\$, PPP)
1998	0.653	0.644	0.53	59.0	0.68	9.4	2,423
2000	0.638	0.628	0.53	-	0.70	5.5	2,453

^a Percentage of female members of parliament, in %, following the 1998 and 2000 parliamentary elections. Sources: UNDP, Human Development Report, 2000, 2002.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002
GDP growth, in %	3.3	-1.9	4.9	2.6	2.0
Export growth, in %	1.2	-8.6	7.3	4.6	4.3
Import growth, in %	6.3	3.3	3.8	3.6	3.3
Inflation, in % (CPI)	13.7	11.6	11.1	9.6	7.7
Unemployment, in %	5.1	5.3	5.2	6.3	6.2
Budget deficit, in % of GDP	-1.1	-4.0	-5.9	-7.3	-5.2
Current account balance, in billions of \$	141	216	-66	16	124

Sources: CEPAL: Balance Preliminar de las Economías de América Latina y el Caribe, Santiago 2002, <<http://www.eclac.cl/publicaciones/DesarrolloEconomico/6/LCG2196PE/lcg2196apendice.pdf>>; Instituto Nacional de Estadística de Honduras <<www.ine-hn.org>>

5. Transformation management

5.1 Level of difficulty

An evaluation of the level of difficulty must give particular weight to the social, political, and economic distortions that occurred in Honduras as a result of the Central American conflict. It must also take into account the consequences of the natural disaster at the start of the period under review. For a small nation like

Honduras, these events present major challenges that can hardly be overcome alone. The deficits in economic and social development, limited free-market practices, a low level of education, and a lack of social integration for ethnic groups all make for difficult baseline conditions for the country's development.

The low level of performance within government institutions, which had been de facto replaced by the military for a long time, has impaired the country's civic development and, at the same time, reinforced family and patronage-based structures. Such conditions make it almost impossible to reduce the polarization of Honduran society. The situation is exacerbated by an economic model that is heavily dependent on commodities exports and thus incapable of generating revenue that can be used to reorient social policy. Structural barriers have developed that can only be overcome if autonomy is increased at the regional level or massive investments are made in human capital. The lack of efficient public administration, the state's limited monopoly on the use of force, and the precariousness of the rule of law all contribute to the fact that the level of difficulty for transformation must be considered medium to high.

5.2 Reliable pursuit of goals

It is difficult to make out a strategy for economic reform in Honduras during the period of this study. To a great extent, the governments had to focus on crisis management, whether due to Hurricane Mitch, the debt situation, or the runaway budget. Clear, strategic priority-setting existed only to a limited degree, and generally followed the line of securing Honduras' competitive position for attracting *maquilas* and selling bananas and coffee.

In this area, all of the country's governments made a concerted effort to show foreign investors a certain degree of reliability, but without deriving a coordinated economic policy. Thus, the key decision-makers' actions were generally discretionary and geared toward short-term considerations. They were also often heavily influenced by strong interest groups and social pressures. Changes in government were often associated with a reorientation of political programs, with the consequence that there has been little continuity in the goals pursued.

5.3 Effective use of resources

In light of the very limited autonomy available to public institutions and the large consumptive portion of the national budget, the use of resources is not very efficient or effective. Short-term political obligations continue to dominate the picture, as these must be met in order to secure the much needed support of important segments of society. In addition, dependence on multilateral loans and development cooperation funds to finance the deficit has made government

spending heavily dependent on external conditions and their variations. This increases pressure on the few “free” resources and makes it even more likely that they will be applied toward political and tactical interests. The criticism voiced by the international donor community with regard to the employment of funds by the Honduran government, and public criticism of corruption within government and para-governmental structures, bear witness to the shortcomings that persist in this area.

5.4 Governance capability

Despite the encrustation of social structures, the stakeholders prove very creative time and again when it comes to staging the adjustments necessary to restore the social balance. Public—and oftentimes violent—protests have proven to be suitable means for challenging the organizational capability of political decision-makers and for forcing formal adjustments. Strikes, street demonstrations and the occupation of public buildings have been used to denounce the political leadership’s lack of management capability and to demand necessary adjustments. These factors also illustrate the lack of effective and stable intermediary structures that could otherwise signal potentially disruptive conflict situations early on. In this respect, important resources have remained untapped and the alignment of reform, stability, change and innovation often go astray. If one also takes into consideration the poor state of some parts of the administration, then it is clear that the government does not always possess enough political authority to implement reforms.

5.5 Consensus-building

The aim of a market economy-based democracy has not been fully accepted by all of the social stakeholders. This is due less to a lack of consensus elements within the political culture in Honduras and is more a result of the existing system’s lack of effectiveness, which has worn away at public acceptance. The exclusion of certain social groups (*indígenas*, *garífunas*, young people, women), the continued predominance of traditional local power structures, and the fact that recourse to violence often goes unpunished have created a political conflict constellation that impedes transformation and may even jeopardize transformation altogether in the future.

It is not so much that the public rejects the aim of transformation but rather that the public questions the existing structures which serve the established interests of the elite, and do little to meet the integration imperatives of an open and participatory society. Especially in terms of establishing communication channels within society to ensure authentic representation, daunting hurdles continue to slow the modernization of a political system dominated by a so-called electoral

democracy and an antiquated economic structure without offering its citizens opportunities for mobility.

The new civic stakeholders have yet to tap this democratic potential, despite a basic consensus in society with regard to democracy and the fundamental rules of democracy. The process of democratic transformation may have experienced a positive surge in the 1990s thanks to the truly credible initiation of an anti-corruption policy under the government of Carlos Roberto Reina. But despite broad-based public support for the *renovación moral*, the initiative quickly got bogged down in the difficult economic and political conditions.

A synchronization of economic transformation and political transition as mutually beneficial processes has not been achieved in Honduras. Similarly, solidarity within the general population and between the different social groups has not been promoted. Dealing with the injustices of the past has also not yet found its way onto the political agenda.

5.6 International cooperation

External stakeholders play a key role at various levels of the transformation process in Honduras. Given the low level of development combined with the damage caused by natural disasters, the most important role is with respect to the allocation of credit facilities and the implementation of programs from international donors and bilateral development cooperation.

In transnational relations, the economic and political models provided in the form of international companies (bananas, *maquilas*) or foreign military organizations have been particularly effective. This is particularly true when it comes to demanding specific conditions for investments (*maquilas*), but also for exerting influence on the articulation of interests within the country (e.g. in the fight against unions). At the civic level, the cross-border organization of social groups like the *indígenas* and *garifunas* is having an increasing influence. These multifarious forms of international cooperation open up a broad range of possibilities for dealing with various interests. Some of these possibilities operate outside national methods of communication and understanding whereas others conjoin with these methods, often resulting in massive dependencies.

Honduras' socioeconomic predicament does not leave its government much leeway with respect to cooperating with international finance and aid organizations. In particular, the cooperation with the IMF as well as with the IMF and World Bank within the framework of the Poverty Reduction Strategy Papers has taken a positive turn in the last few years. However, it remains a difficult undertaking for the government to balance out the macroeconomic, social and political management requirements. The governments are nevertheless applying

international aid in a targeted manner and focusing their reform policies to some extent on the guidelines provided by the international donor community. Thus, according to them the current government is deemed predictable. But the community is also aware of the problems and risks of economic and political development in Honduras. At the regional level, cooperative efforts are sometimes disrupted by bilateral tensions. In the case of Honduras, such tensions include border disputes with El Salvador. Although these disputes no longer bear the threat of military escalation, they do result in the misallocation of resources.

6. Overall evaluation

With respect to the baseline conditions, current status and evolution, as well as political management achievement by the players, this report has resulted in the following assessments:

(1) *Baseline conditions*: The baseline conditions for transformation should be considered difficult overall. Before and during the period of this study, important structures were not effective or were severely impeded by external events. The manifest stagnant development pattern in Honduras and the low level of internal and external impetus for change could not provide transformation the push it needed to bring about a comprehensive shift in the democracy and market economy.

The exclusion of important groups of society, a lack of civic and democratic traditions founded in the rule of law, and the derivation of power from the control apparatus and social structure have blocked any noticeable impetus for transforming the established interests. During the period of this study, the processes of democratic reform and economic expansion proceeded at varying paces and into a development model that is hardly suitable for achieving a breakthrough toward a functional society and economic competitiveness.

(2) *Current status and evolution*: Honduras has still only completed a very small part of its path toward *democratic transformation*. Progress has been made with respect to freeing the democracy from the yoke of military dictate. However, considerable deficits remain in terms of political representation and integration, the institutional efficiency of the government system, the rule of law, and citizen support of the democratic system. These deficits have not yet been systematically addressed. Existing potential for opening the structures and enabling civic and citizen participation has not yet been tapped.

Progress toward *economic* transformation has been relatively insignificant. However, as in almost every country in Latin America, the basic structure of the Honduran economic system has always been oriented toward a free market. But given the level of difficulty, political decision-makers have had little success

beyond short-term crisis management. They have not managed to bring about a level of macroeconomic development that would place the existing economic model on a new footing. With the exception of the debt situation, Honduras' macroeconomic fundamentals have been successfully brought under control. But the economic model has proven insufficient for meeting the needs of Honduran society.

(3) Management: So far, the social stakeholders have not been very goal-oriented in implementing a strategy for transformation to a market-based democracy. Important steps with clear priorities as part of a comprehensive development strategy have yet to be taken. Thus, the key challenges for a more progressive transformation in Honduras will be to ensure the qualification of political, social and economic leaders as well as their willingness to reach consensus and to guide those elites who are willing to implement reform toward a viable reform strategy that does not shy away from conflict with the many external and internal interests at play in Honduras.

7. Outlook

Honduras still faces a number of major challenges to transformation. Given the prevailing structures (dependence on foreign funds, the debt situation, overfunding, etc.), it is unlikely that Honduras will be able to manage these challenges alone. Meeting these challenges will require qualified social stakeholders, intermediary institutions and concepts for finding a way out of the dead-ends created by a survival-oriented economic structure that is not capable of ensuring economic development. Perpetuating a social structure that continues to try to fit into this economic model will always lead to crisis if new means of social understanding and social reform are not created that will open new opportunities for the country.