1 The Public Sector in Honduras

This chapter provides a broad overview of Honduras' public sector and assesses its effectiveness across several, intertwined dimensions. First, it lays out how structural challenges have been compounded by multiple shocks, impeding the country's sustainable development. Second, it assesses the quality and quantity of public spending against policy objectives and development outcomes. Third, it analyses the capacity of the public administration to deliver inclusive and quality services to all by examining public employment and public sector digitalisation. Finally, it attempts to gauge effects of corruption and limited transparency. The chapter points to several areas for policy reform and provides the context for the topics covered in the following chapters: policy co-ordination, results-based management, monitoring and evaluation, and open government.

A more effective public sector is essential to address the country's challenges

Enhancing the effectiveness of the public sector is essential to achieving better results for the citizens of Honduras, especially in a pressing fiscal context after the COVID-19 crisis and the natural disasters that affected the country in 2020, Tropical Storm Eta and Hurricane Iota. A more effective public sector can support countries in meeting these challenges by providing greater capacity to address the challenges of stagnant human development, persistent high poverty, pervasive inequalities and widespread corruption. Despite the progress in certain policy domains, Honduras remains one of the most insecure countries in Central America (UNODC, 2021[1]), where violence compounds food insecurity and pushes many to migrate. Inequalities in the access to vaccines and unequal coverage of basic services further deteriorate the social contract (CEPII, 2018[2]), while tight fiscal space limits the government's capacity to cope with cyclical downturns and shocks. Moreover, the COVID-19 crisis adds urgency to the long-recognised need for Honduras to raise the effectiveness of its public sector. A more effective public sector will help the country achieve more inclusive and sustainable growth, protect and nurture human capital and tackle long-standing governance challenges of low productivity of the public sector, weak co-ordination and outdated strategic frameworks. Improving the value-for-money of expenditures and strengthening the capacities of the civil service, accelerating the adoption of digital technologies and improving co-ordination with subnational governments will prove essential to building a public sector that is fit for current and future challenges.

This chapter offers a snapshot of the Honduran public sector, highlighting some of its strengths and challenges, and sets the scene for this Public Governance Review. The chapter starts by assessing the difficult context in which the Honduran public sector operates in light of current challenges, including the aftermath of the COVID-19 pandemic. It provides evidence of mixed macroeconomic performance and of the prevalence of weak socio-economic indicators, e.g. high levels of poverty, inequality and violence. The next section seeks to briefly define the scope of the public sector in the economy by having a closer look at public finances, the budgetary composition and its allocations. Thirdly, the scope of the public sector in the economy is further explored by analysing public investment, public employment, the state of digitalisation in the country and its centralised administration. Finally, the chapter examines more closely issues of corruption and growing mistrust in public institutions.

The rest of the Review is structured as follows. Chapter 2 focuses on the work of the centre of government for securing policy co-ordination. Chapter 3 analyses the Results-Based Management framework operating in government. Chapter 4 focuses on government efforts to build a sound monitoring and evaluation system. And Chapter 5 analyses the design and implementation of open government strategies in Honduras.

Coping with a complex context: Health and climate shocks compound structural weaknesses

Macroeconomic performance put under pressure by COVID-19 and climate-related crises

Macroeconomic indicators in Honduras were relatively stable with low public debt, inflation under control and a stable fiscal balance before the twin shocks of the COVID-19 pandemic and Tropical Storm Eta and Hurricane Iota hit the country in 2020. In that year, the country's GDP contracted by a historic 9.0%, the largest decline in Central America, compared to the average of 6.7% in Latin America and the Caribbean (LAC) and 4.5% in OECD countries. In contrast, the country's GDP grew by 4.8% in 2017, 3.8% in 2018 and 2.7% in 2019, well above the LAC average, which grew by 1.9%, 1.6% and 0.8%, respectively (World Bank, 2021[3]). The decrease in GDP per capita is even starker, a contraction of more than 10% in 2020

compared to a modest growth of 0.9% and 2% in 2019 and 2018; this reflected the effects of a severe drought as well as structural deficiencies undermining the economy such as low productivity growth. The recession prompted by the twin shocks created large additional financing needs, implying a deterioration in external financing conditions and large public sector rollover needs (IMF, 2021[4]).

At the national level, the country's fiscal balance faced severe constraints in 2020, jeopardising the sustainability and effectiveness of public spending, even though Honduras had recently improved its fiscal position based on the 2016 Fiscal Responsibility Law (LRF) and the macro-fiscal rules, especially the non-financial public sector deficit ceiling. In 2018, the country benefited from a primary balance surplus of 0.2% of GDP and a slight Non-Financial Public Sector (NFPS) fiscal deficit of -0.9% of GDP when factoring in interest payments, making Honduras the only LAC country with a positive fiscal balance along with Jamaica (OECD, 2020[5]). These results significantly outperformed peer Latin American countries, whose average primary deficit reached -4.3% of GDP, as well as OECD countries, whose mean primary deficit amounted to nearly -2.9%. As in most economies across the world, in 2020 public finances in Honduras came under pressure due to the reduction of tax revenues and the raise in public spending to mitigate the economic and social impacts of the pandemic (Honduras, 2022[6]). As a consequence, the NFPS fiscal and primary balance deficit increased respectively to -5.5% and- 4.2% of GDP in 2020. The NFPS fiscal deficit for 2021 was 3.7% and for 2022 is projected to be 4.9% (Honduras, 2022[6]) (Secretaría de Finanzas, 2022[7]). Gross NFPS public debt increased by 9.6 percentage points from 44.6% of GDP in 2019 to reach 54.2% of GDP at the end of 2020 – due in particular to the increase of spending and the decrease of economic activity produced by the COVID-19 pandemic, Tropical Storm Eta and Hurricane Iota – and decreased to 51.9% in 2021. In 2018, it accounted for 44.1% of GDP in 2018, while the LAC average amounted to 64.7% and that of OECD countries reached 108.6% of GDP (OECD, 2020[8]).

Despite this complex context, the country's economy rebounded in 2021 with a GDP growth of 12.5%, and is projected to grow by 4.1% in 2022 (Secretaría de Finanzas, 2022[7]) (Honduras, 2022[6]). The recovery is mostly due to the reactivation of domestic economic activity and international positive spillovers with the increase of remittances and manufacturing exports (IMF, 2021[4]). However, institutional weaknesses create fundamental challenges that hinder the country's sustainable development. These span from low productivity growth to unmitigated climate-related risks and weak service delivery. First, most jobs created since the 2009 crisis have been in low-productivity and low value-added sectors, exacerbating skill mismatch and youth unemployment. Second, the country and its economy are very vulnerable to climate change due to exposure to climate-related hazards and high dependence on agriculture even after decades of continuous labour (USAID, 2017[9]). For instance, the agricultural sector contracted by 6.2% in 2020 due to prolonged drought caused by an absence of reservoirs, irrigation systems and adequate technologies as well as the tropical storm and hurricane that hit the country. Finally, weak and unequal delivery of public services, particularly on education and health, as recently exemplified by low COVID-19 vaccination rates, negatively affects social cohesion and trust towards the state. As of April 2022, only 52% of the population received complete or partial vaccination (Our World in Data, 2022[10]). This places Honduras as the second least vaccinated country in Central America, only above Guatemala with almost 44% of its population at least partially vaccinated.

High poverty and pervasive inequality rates erode human capital and hamper inclusive growth

Honduras has the second highest poverty rate in the LAC region, only after Haiti. In 2021, 73.6% of Hondurans are considered poor and 53.7% live in conditions of extreme poverty (INE, 2021[11]), compared to a regional average of 32% and 13.8%, respectively (UN ECLAC, 2021[12]). Similarly, around a third of Hondurans are near-poor and are therefore vulnerable to fall into poverty (World Bank, 2021[13]) while the Honduran middle class is among the smallest of the region. The economic impact of the pandemic and the two hurricanes resulted in an estimated 45% of households reporting income losses in 2020, bringing 43% of households to experience food insecurity, the highest rate in Latin America and the Caribbean (World

Bank, 2022[14]). The pandemic and the hurricanes deeply affected labour market outcomes and further impeded human capital accumulation. Around 13% of adults lost their jobs in 2020, in particular low-skilled workers and women. School closures and the lack of access to remote learning opportunities compound pre-existing weaknesses in the education system, to which much of the population has limited access despite substantial public investments, resulting mainly in an increase in personnel costs. Furthermore, Honduras improved in the Human Development Index (HDI) between 1990 and 2019, with an increase in the country's HDI Index value from 0.519 to 0.634, most notably due to significant improvements in life expectancy at birth and an increase in years of schooling. Progress has recently stagnated in most HDI sub-components, including life expectancy and years of schooling (UNDP, 2020[15]), and the COVID-19 pandemic is likely to have eroded some gains in the accumulation of human capital.

Despite efforts from the government to improve economic outcomes for the most vulnerable, inequalities are pervasive. The country's Gini Index fell from 0.59 in the 1990s to 0.48 in 2020 (World Bank, 2021[16]), and income inequality remains the fourth highest in Latin America, just below Brazil, Colombia and Panama, which have Gini values above 0.50. Similarly, the country largely surpasses the average index for OECD countries, which amounts to 0.32 (OECD, 2020[17]). The urban-rural divide reflects persistent inequalities in several dimensions and public services are unevenly distributed in the country. Around 70% of the rural population live in poverty in contrast to only 33% in urban areas (World Bank, 2021[18]), and climate-related risks affect predominantly rural areas and agricultural workers. Education attainment is significantly lower in rural areas, where dropout rates are higher and access to basic services, such as sanitation facilities and electricity as well as child and maternal care, is highly uneven (Hernandez Ore, Sousa and Lopez, 2015[19]). For instance, almost 25% of Hondurans do not have access to potable water and satisfaction with service delivery has been declining in the last decade. Similarly, satisfaction with democracy and with government institutions has also declined (LAPOP, 2019[20]).

High levels of violence impede socio-economic development and push many to migrate

Honduras struggles with high levels of violence, with 40 intentional homicides per 100 000 inhabitants every year (UNODC, 2019[21]). Honduras is still the third most violent country of the LAC region, just below El Salvador and Jamaica, which account for a homicide rate of 52 and 43.8 deaths per 100 000 inhabitants, respectively. These figures place Honduras largely above those corresponding to OECD countries, which have a homicide rate inferior to 2 deaths per 100 000 inhabitants on average (UNODC, 2019[21]). The country's rate has significantly diminished however in recent years, from a peak of 83 homicides per 100 000 inhabitants in 2011. This decline is partly correlated to a reform in policing, which started in 2012 through a three-pronged approach based on reinforcing the admission criteria for new officers, improving the quality of training and improving the technical capacity and equipment of the police (IADB, 2017[22]). The salaries of police officers were increased by 40% and social benefits were enhanced significantly.

Thus, violence constitutes one of the most important factors affecting the country's socio-economic development, constraining private sector growth, weakening the social contract and damaging human capital. In particular, the high rates of homicide and violence impact multidimensional aspects of Hondurans' lives, including education and the intention to emigrate. According to a United Nations agency report, more than 200 000 children stopped attending school between 2014 and 2017 due to the prominence of gang violence in schools (Peña, 2020[23]). The report also showed that teachers are among the most displaced population segments, and that 83 teachers were murdered between 2009 and 2014. This issue translates into a lack of skilled labour within the sector, further impacting school outcomes. In 2021, the intention to emigrate is 30% higher than in 2004, the largest reported increase among regional peers, and the likelihood to emigrate is shown to be strongly correlated with food insecurity and corruption (LAPOP, 2019[20]). In 2021, up to 55% of the national population reported the intention to migrate, with significant heterogeneity along the rural-urban divide (USAID, 2021[24]).

Fragile public finances are further threatened by COVID-19

Financing the budget: External dependence and reversal of a positive trend amid multiple shocks

The fiscal stability and sustainability of public finances represent one of the main challenges for Honduras. According to the budget law for 2021, more than a third of the total budget is financed by debt securities while approximately two-thirds is financed by the country's internal activity. In particular, only 59% of the budget is financed through tax revenues (Molina et al., 2021[25]). In 2020, total public debt (NFPS) increased by 18.2% compared to the previous year. Approximately 64.6% of public debt (NFPS) is external, while the remaining 35.4% is issued internally (Honduras, 2022[26]). This denotes the high dependence of the public sector on external funding to obtain resources for the functioning of the public apparatus, including for the provision of basic goods and services and for financing recurrent costs, thus putting the country's finances in a vulnerable position.

After some progress, the ability of Honduras to raise revenues has been declining but is expected to stabilise. State revenues have been increasing from 16.8% of GDP in 2010 to 20.0% of GDP in 2016 (Secretaría de Finanzas, 2022[7]), but from 2016 to 2019 they have experienced a slow, albeit steady decline: in 2019 they amounted to 19.2% of GDP (IMF, 2021[4]), significantly lower than the LAC average of 23.7%. In 2020, total central government revenues decreased by 17.6% in real terms compared to 2019, due to the significant reduction in tax revenue (-20.4%) caused by the double impact on consumption and production of COVID-19 and the hurricanes (UN ECLAC, 2021[27]). In particular, the pandemic caused a decrease in revenues collected because of the economic contraction and emergency measures to support small and medium enterprises (SMEs), such as deferrals and discounts on both personal and corporate income taxes, increased possibility to spread tax payments across several instalments and the extension of tax amnesties already in vigour. Tax revenues are even lower and have been decreasing sharply. While they constituted 17.6% of GDP in 2018, they represented only 14.8% of GDP in 2020 and are estimated to have slightly rebounded to 17.3% of GDP in 2021 (Honduras, 2022[6]) (Secretaría de Finanzas, 2022[7]).

Challenges also relate to how taxes reduce inequalities. A closer look at the inner composition of the aforementioned 59% of the budget, i.e. tax revenues, reveals the decreasing progressivity of the tax schedule and the reliance on consumption taxes, which in turn tends to reinforce socio-economic inequalities and undermines the fight against poverty. According to Molina et al. (2021[25]), indirect taxes account for 73.7% of the total tax mobilisation, largely above the average value of 66% that prevailed in Honduras for the 2011-18 period. With three-fourths of total taxes being regressive, the country is experiencing one of the highest levels of tax regressivity in the LAC region (Rivera, Mature and Avelar, 2018[28]). The importance of a strengthened social contract and reinforced trust points to the need for transforming the tax system by making it more inclusive and effective, for instance by rationalising tax expenditures and reducing tax evasion – thus empowering the government with the capacity to transform political priorities into actionable policies.

The dependence of Honduras on international financial support goes beyond sovereign debt being held by foreign entities. Internal consumption in Honduras is largely sustained by foreign remittances. The role of remittances in the Honduran economy has continuously increased since the 1990s, from less than USD 100 million and 1% of the GDP in 1993 to USD 6 billion, which represents more than 20% of Honduran GDP. An increase in remittances during the pandemic has been crucial to cushion income losses due to the pandemic (World Bank, 2021[18]). Only during the 2008 financial crisis did remittances stop growing, even though the 2008 levels were progressively recovered and even surpassed during the past decade. Income derived from remittances contributes to poverty reduction, but can also undermine the competitiveness of the economy and raise the reservation wage of workers, thus contributing to voluntary unemployment, as well as further exposing the economy to global negative spillovers. Despite their potential benefits, the soaring weight of remittances within the economy suggests that part of the

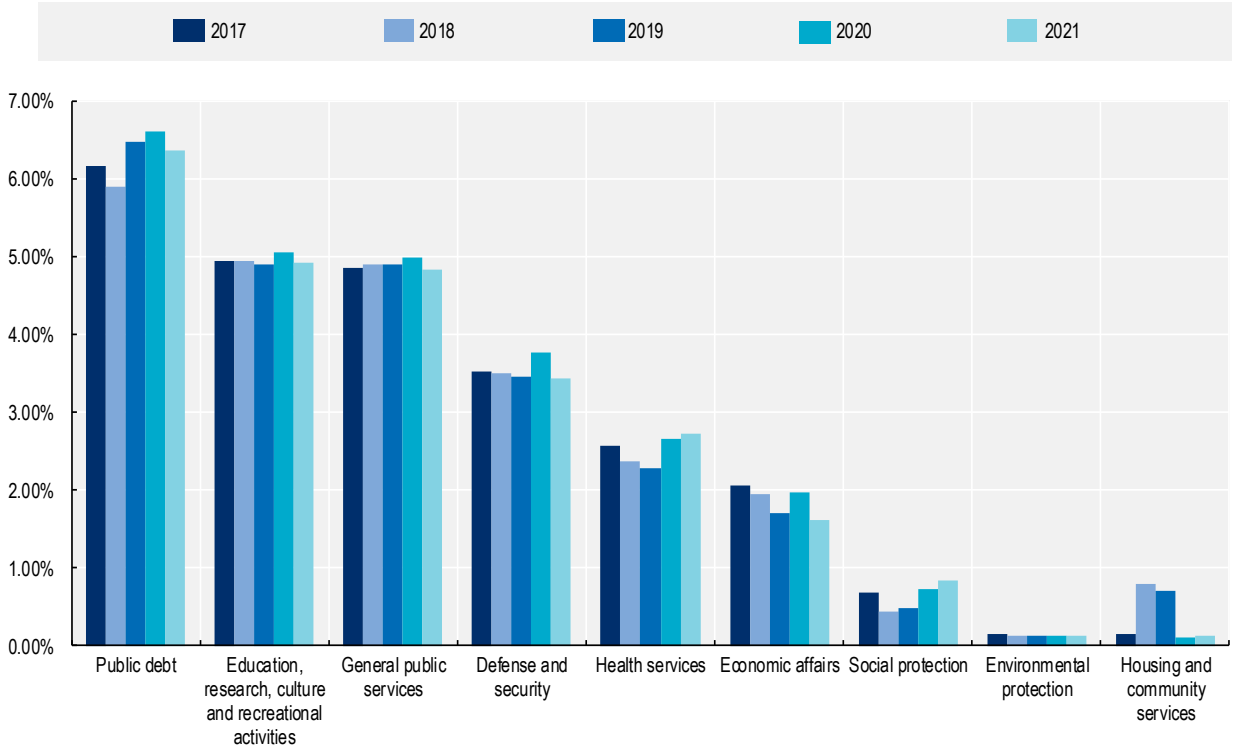
purchasing power – and hence the demand capacity – of Hondurans is conditional on receiving them, highlighting once again the weaknesses of social protection systems and public services.

The country's growth-enhancing spending is low, despite high total expenditures

Accounting for more than 24.1% GDP in 2021, national public spending in Honduras is lower than the average of LAC countries of 31.2% but has trended higher over the past years (Honduras, 2022[26]) (OECD, 2020[8]) (Molina et al., 2021[25]). Despite the sharp contraction in capital expenditure by 11.0% in 2020, exceptional needs due to the pandemic led to a 4.2% increase in current spending, reflecting an increase in current transfers and spending on goods and services (UN ECLAC, 2021[27]). In 2021 public spending further increased to reach 24.1% of GDP (Honduras, 2022[26]) – one of the highest increases in past decades, largely due to the mitigation measures to cushion the effects of the pandemic and of Tropical Storm Eta and Hurricane Iota. At the end of 2020, more than two-thirds of total spending for the pandemic had targeted the purchase of medical supplies and equipment, while only the remaining third was spent on social assistance measures. In addition, amendments to approved budgets are frequent. For instance, only 60% of funds originally allocated to recovering from the damages inflicted by the hurricanes were actually spent to that end. Honduras still spends less than OECD countries, whose expenditures averaged 40.3% of GDP in 2019 and have recently increased due to COVID-19 mitigation measures.

According to the Honduras Finance Secretariat, 23.6 % of total government expenditures is allocated to paying back public debt and interests. The pattern of spending is pro-cyclical, which generally leads to further debt accumulation and fiscal distress (IADB, 2018[29]). The country's growing overall spending is largely due to public debt spending, which emerges as the single largest expenditure item of the budget, as shown in Figure 1.1. Honduras spends less than LAC peers and OECD members on most social transfers, contributing to the high levels of inequality and poverty. Social expenditures represented a little more than 10% of GDP in 2010 and increased since then to approximately attain the average of 15% in the LAC region (IADB, 2018[29]), still significantly lower than 20% for OECD member countries (OECD, 2019[30]). Despite this improvement and because most of the spending stems from increased personnel costs, in 2017 only 0.4% of GDP is spent on social benefits, equivalent to 1.4% of total expenditures, the lowest among all LAC countries (OECD, 2020[8]) and much lower than the LAC average of 10.2%; social protection expenditures meanwhile barely account for 0.9% of GDP in 2021 (Molina et al., 2021[25]). Expenditures for the health sector are expected to decrease from 2.9% of GDP in 2020 to 2.7% in 2021. In this context, the country's high debt spending is projected to remain significant, as multiple shocks are strengthening the reliance on external financing given the constraints on fiscal revenues.

Figure 1.1. Destination of expenditure of the Central Administration, as a percentage of GDP



Source: Molina et al., 2021.

The increase in public spending is not fully reflected in the improvement of physical and human capital. This highlights structural inefficiencies and calls for better, smarter spending. According to data provided by the Honduras Secretariat of Finance, public investments decreased from 11.0% of total expenditures in 2017 to 6.5% in 2021, and it is estimated that in Honduras 4.6% of GDP is lost in technical inefficiencies of spending, mostly with regard to the wage bill but also in targeted transfers and procurement (IADB, 2018[29]). The economic and well-being outcomes achieved by the country's public spending are mixed (Almeida et al., 2020[31]). As the OECD *Health at a Glance: Latin America and the Caribbean 2020* reveals (OECD, 2020[32]), health outcomes both in terms of health status indicators (e.g. life expectancy at birth, survival to age 65, the mortality rate for those under age 5) and in terms of determinants of health (e.g. sanitation, access to drinking water, smoking, alcohol consumption, overweight adults) are in line with the LAC average. In contrast, education outcomes, as indicated by dropout rates and school enrolment rates, are almost half the LAC and OECD averages (World Bank, 2021[33]), despite their sharp improvement in the past 20 years (Michel and Walker, 2020[34]). Similarly, limited and poorly targeted spending in social protection is not sufficient to protect the most vulnerable, as only 20% of the population is covered by social security and 60% of spending in social protection benefits the top 40% of the income distribution (Hernandez Ore, Sousa and Lopez, 2015[19]).

Challenges and opportunities for the Honduran public sector

Public investments and public employment show the need for a more results-oriented use of public resources

Following the pandemic, governments are called upon to respond to evolving demands from citizens, ensure inclusive and sustainable growth, and create institutional resilience to shocks. The public sector is taking on a more involved role as a key economic and social actor responding to increased expectations and to challenging agendas. Prior perspectives on an enhanced role of the state in the economy and on the prominence of public investments have come back to the forefront of debate (Mazzucato, 2013[35]). In this context, the efficiency and effectiveness of spending are crucial, as they determine the capacity and room for manoeuvre of the state to meet its newly enhanced role.

Inefficiencies in public investment limit the impact of spending

Public investment continues its downward trend after decades, even though the Public Investment Plans have been consolidating their strategic documents. According to data provided by the Honduras Secretariat of Finance, gross public investment is projected to represent 3.8% of GDP in 2022, significantly higher than the LAC average, while in 2017 it represented more than 2.5% (IMF, 2021[4]). This commitment makes Honduras one of the three countries with the highest public investment rate in the LAC region (OECD, 2020[5]). However, a better results-based model of governance and stronger tracking of spending are needed to translate the quantity of spending in tangible results, keeping pace with urban population growth and bridging the rural-urban divide. Honduras launched an initial results-based management framework, but available data suggest that performance, although improved, still lags behind most regional peers. As examined in Chapter 3, the complexity and ambitiousness of the result-based management (RBM) framework hinders its effective implementation and limits its potential impact. Stakeholders do not always possess a full understanding of the framework and public officials tend to only comply with RBM formalities without being engaged in delivering on its purpose.

Three main challenges hinder more efficient and effective public spending. First, corruption is a major obstacle and the country's score in the index measuring the diversion of public funds deteriorated by 23% between 2007 and 2017, placing the country in the lower half of the index when compared to peer Central American countries (World Bank, 2017[36]). Second, public investment management efficiency is lower in Honduras than the LAC average and constitutes a major hindrance to effective spending (Serebrisky et al., 2017[37]). Third, burdensome and inefficient regulatory frameworks increase inefficiencies in spending, can make corruption more likely, hamper the improvement of the country's logistical infrastructure, undermine human capital accumulation, and discourage private sector investments in critical sectors frameworks (Koske et al., 2015[38]). Despite the decrease in public investment spending, UN ECLAC has pointed to the relevance of Public Investment Plans as a major tool for planning and co-ordination in Honduras. The National System of Public Investments of Honduras (SNIPH) is the framework that sets out the legal framework, processes and actors to co-ordinate and plan public investments. The Secretariat of Finance (SEFIN), through the General Directorate of Public Investment (DGIP), is the governing body of the SNIPH. The DGPI, as the governing body, develops standards and methodologies that govern the SNIPH and is responsible for prioritising the viability of projects, programming investments, monitoring, and project closure. In addition, the 2023-26 Mid-term Fiscal Framework (Marco Macro Fiscal de Mediano Plazo – MMFMP) sets out, among other elements, the government public investment goals for the next three years (Honduras, 2022[6]). Nonetheless, the actual performance of the planning and budgeting frameworks differs significantly from the formal regulations, as discussed in Chapter 3.

Public sector jobs enjoy a significant wage premium and weak meritocracy characterises the civil service

Since 2013, employment in the public sector has increased by an average of 2% every year, reaching 6% of total employment in 2018 (OECD, 2020[5]), far below the LAC and OECD averages of 11.9% and 21.1%, respectively. Public employment is more relevant when compared with all formal employment and all paid employment, representing 22.5% and 13%, respectively (World Bank, 2018[39]). According to data provided by Secretariat of Finance, the public wage bill represents 11.2% of GDP and 34.8% of total government expenditures in 2018, higher than the LAC averages of 8.5% and 27.3% respectively, and has been declining steadily since 2008 (World Bank, 2018[39]). The civil service, despite improvements, faces challenges in terms of skills development and fragmentation of contracting frameworks, when compared to regional peers (World Bank, 2022[40]). Only 28% of public servants have tertiary degrees, significantly less than in most other LAC countries, even after accounting for the lower share of the overall workforce with tertiary education (World Bank, 2021[41]). In addition to strengthening the recruitment and selection processes, introducing performance agreements in Honduras might support "accountability for results" while boosting professionalism (OECD, 2021[42]), and reinforcing legal frameworks to limit the revolving door between politics and private businesses could limit discretionary practices in the civil service. Chapter 3 of this Review analyses the need for improving the performance framework in Honduras.

Despite improvements in the past decade, the civil service continues to have deep structural weaknesses. The General Directorate of Civil Service (DGSC) has made attempts to improve the availability of information through the Human Resources Information and Administration System, to limit arbitrariness in the appointment of personnel, implement a performance evaluation system, and present a bill for an Administrative Career Law for discussion in Congress (Velarde, 2014[43]). However, Honduras still faces challenges in the unification of salary policies and in consolidation of the different contracting modalities used across agencies and institutions (World Bank, 2022[40]). It is worth highlighting that the country's public servants are among the youngest across the LAC region, the mean age within public sector employees being slightly below 40 years old. This would indicate a potentially dynamic labour force within the public sector to which human capital and organisational knowledge can be easier to transfer. The current government is planning to elaborate a wage policy to address many of these challenges and potentially reform the Civil Service Law, in order to add improve performance evaluations and other key priorities.

Harnessing digital technologies can improve service delivery and inclusion, but challenges lie ahead

The experiences of OECD countries show that digitalising public services improves their quality, optimises the targeting of programmes, reduces transaction costs and widens access (Nicoletti, 2021[44]). Digitalisation of the public sector can respond to the rapidly evolving needs of service delivery, boosting transparency, engaging citizens and strengthening the social contract. This has become even more fundamental as governments continue to reel from the impacts of the COVID-19 pandemic and strive to build institutional resilience for an inclusive recovery (Bjerde and Kunt, 2021[45]). The shocks that Honduras recently experienced can represent an opportunity for the government to harness digital instruments, data and tools to optimise management and service delivery, facilitate the transition towards universally accessible and citizen-centric public services, and fight corruption (Bjerde and Kunt, 2021[45]). However, the performance of the national statistical system is modest as highlighted in Chapter 2, especially in data infrastructure, standards and methods. Honduras scores 61 out of 100 points in the World Bank Statistical Performance Indicators (SPI), well below the regional average (World Bank, 2021[46]). Several challenges hinder the digital transformation of the country, ranging from insufficient and unequally distributed infrastructure to weak capacity and the lack of an updated government strategy.

Even if the use of and access to digital technologies have been steadily improving, Honduran households have the lowest Internet access and utilisation rate in the region, only second to Nicaragua. It is the country with the lowest rate of ownership and use of mobile telephones, and the digital divide affects more than half the population. The high-quality 4G network does not cover the majority of the country, which ranks among those having the lowest adoption of ICT technologies worldwide (World Economic Forum, 2019[47]). Digital government systems and processes for e-participation and citizen engagement are weak, and Honduras fares significantly worse than its peers in Central America and in the LAC region (United Nations, 2020[48]) (ERCAS, 2021[49]). The digital divide between rural and urban areas is deep, which reinforces social and economic disparities. Only 18.7% of those having access to Internet live in rural areas while 81.7% live in urban areas (INE, 2018[50]). About 17% of Honduran households have access to a computer, but urban residents are more than four times more likely to own one (INE, 2021[51]).

The digital capacity of the civil service is also weak and, even after slight improvement in the past decade, Honduras is among the countries in Latin America with the lowest score in the Civil Service Development Index. The development of digital skills among civil servants is seldom mentioned in the existing national digital strategy, and the staff size of the digital authority is one of the smallest in the region. Accumulation of human capital and digital skills in the digital authority is difficult, as only 20% of workers are part of the career civil service while the remaining 80% are temporary contractors with high turnovers (IADB, 2021[52]). The digital authority is responsible for few activities and contributions, the fewest among LAC countries, and staffing is disproportionate with respect to existing tasks. Finally, the OECD OURdata Index shows that the public sector in Honduras ranks poorly in indices measuring data availability and accessibility as well as government support for data reutilisation, placing the country below the LAC and OECD averages (OECD, 2020[8]).

As highlighted by the OECD *Recommendation on Digital Government Strategies* (OECD, 2014[53]), successful digitalisation programmes tend to be part of larger public sector digital modernisation strategies. The only integral tool developed recently is the Digital Agenda 2014-18, which yielded mixed results (DGT, 2020[54]). Progress on certain digital indicators, such as higher Internet connectivity, has been substantial in the past decade, but Honduras still lags behind most countries in Latin America. The Agenda is now outdated as it does not consider the country's current challenges; it does not include concrete policy pathways; and it underplays the public utility that digitalisation could offer for a transparent and accountable public sector. The Centre of Government (CoG) is not included as a strategic partner in activities related to digital government, as outlined in the OECD *Government at a Glance: Latin America and the Caribbean 2020* (OECD, 2020[8]). The related legal framework is obsolete and competences are not always clearly defined, which makes it difficult to effectively manage digital transformation of the public sector.

The e-procurement system Honducompras, first set up in 2005, is controlled by the State Contracting and Procurement Regulatory Office (ONCAE) and it does not fully respond to modern needs or standards of e-procurement platforms (Rozo, Penagos, Fernandez, 2020[55]). A large number of contracts are awarded and stipulated outside the platform, undermining its efficacy, and the system features limited data structures. The absence of key procurement information, such as award and contract dates as well as tender details on procured items, precludes a full analysis of the entire procurement cycle. The system also lacks adequate interoperability features to integrate and cross-check data across fiscal and public investment databases. The new public contracting portal Honducompras 2, after having been piloted in a number of government agencies, is now suspended because of technical problems (Rozo, Penagos, Fernandez, 2020[55]) (IMF, 2021[4]).

Can a multi-layered government enhance public sector effectiveness? Building from a very centralised country

Honduras reports a poorly developed multilevel governance structure. After a political push to decentralise revenue mobilisation and services in the 2000s, the fiscal autonomy of subnational authorities has recently

diminished and the country nowadays is among the most centralised in the region (CEPII, 2018[2]). Honduras has a simple multilevel governance structure, displaying 18 departments and 298 subnational government entities, where less than 40% of the Honduran public resources is managed by regional departments and municipalities, and more than 60% is controlled by the central state (Secretaría de Finanzas, 2022[7]). The share of procurement spending at the central level in Honduras was the highest in LAC, accounting for 82.6% of total procurement expenses (OECD, 2020[5]) – an indication of the high centralisation of procurement needs and processes.

Efforts to decentralise revenue mobilisation, spending and service delivery have faced several challenges. First, fiscal decentralisation reforms have not been fully informed by an evidence-based assessment of the capacity of local administrations to deliver services. Decentralisation of certain sectors, for instance water and sanitation, is incomplete and has seen mixed results depending on the specific delivery modalities (Root et al., 2020[56]). Second, the resistance of central agencies and shifting political priorities of governments have hampered attempts to delegate more responsibilities to local authorities. Finally, decentralisation efforts have yielded short-term improvements in efficiency and cost recovery, but these did not fully translate into better services or increased accountability (World Bank, 2020[57]).

The Honduran administration combines an influential Presidency with a structure that is becoming increasingly fragmented, as explored in depth in Chapter 2. Over the past decade, the number of public institutions increased significantly, going from 75 in 2012 to 106 in 2019. During the 2018-22 administration, the public sector housed 11 State Secretaries, which increased to 24 with the Government taking office at the beginning of 2022. The new structure of the administration, which also includes the abolishment of 17 entities among secretariats of state, special cabinets and sectoral cabinet programmes, creates the Secretariat of State in the Office of Transparency and Fight against Corruption. As the new government priorities spell out, the regulatory office for state procurement and contracting (ONCAE) will be attached to the latter Office as this is meant to step up efforts to fight corruption in the country (Government of Honduras, 2022[58]).

In order to increase the public sector's co-ordination capacity, in 2022 the executive also created the Secretariat of State in the Office of Strategic Planning as the governing institution of the national planning system for the country's social and economic development. Aligned with the priorities of the new executive, several other Secretaries of State are created, such as one in the Office of Women's Affairs, to which the "*Ciudad Mujer*" programme will be attached as a decentralised entity, or the one in the Offices of Infrastructure and Transport. The role of the Honduran Social Investment Fund (FHIS) will be reinforced and headed by a director with the rank of secretary of state. The importance of improving the results-based management framework is examined in Chapter 3 and the planned improvement of that directorate will be crucial to improve the quality of spending. It will function as a decentralised entity of the Presidency headed by an official with the rank of minister advisor, while the newly established Secretariat of State in the Office of Risk Management and National Contingencies (COPECO) will strengthen the country's resilience to shocks (Government of Honduras, 2022[58]).

Perception of corruption and low trust in public institutions are two major challenges for the public sector

The perception of corruption has worsened and the increasingly lower level of trust in government institutions undermines the possibilities of advancing necessary reforms

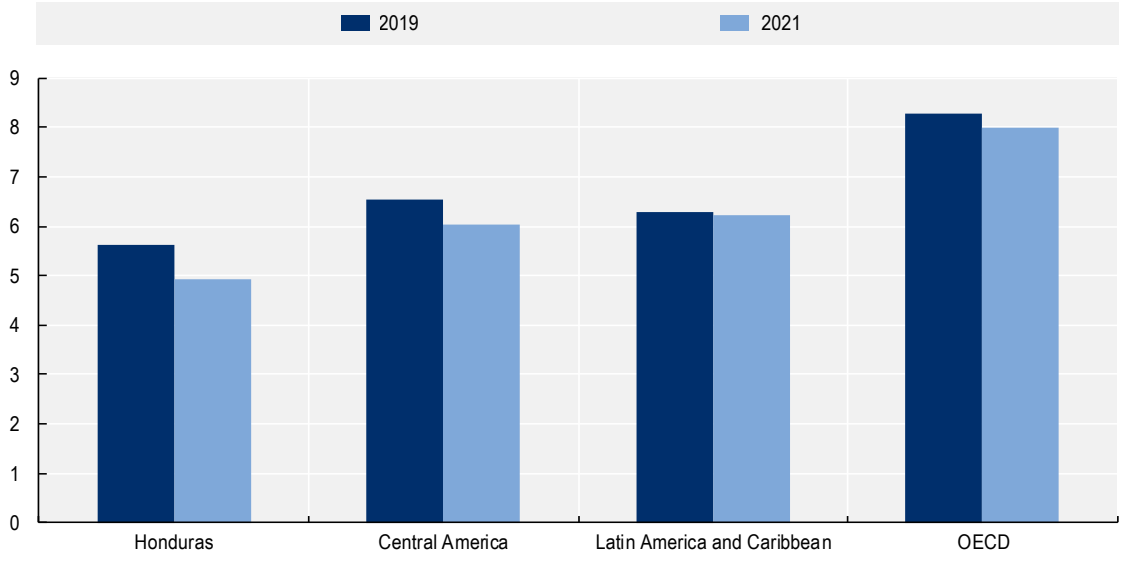
Honduras is grappling with pervasive corruption and the quality of institutions is deteriorating. This can be a factor undermining the trust of citizens toward the state and fosters violence, limiting the space for reforms and ultimately promoting inequalities. In 2020, around 80% of Hondurans report having little or no

trust in the parliament, the government or the judiciary (Latinobarómetro, 2020[59]). More than half of Hondurans think corruption among public sector officials is widespread and the overwhelming majority believe that more than half of all politicians are corrupt. Almost one in every ten people report having recently been victim of extortion and more than 25% of Hondurans justify the payment of bribes to obtain services (LAPOP, 2019[20]) (Latinobarómetro, 2020[59]).

The perception of corruption is not limited to politicians. Between 2016 and 2018, the number of people who think that members of the judiciary and of the police are involved in corruption increased significantly, signalling a general deterioration of trust towards fundamental organs of the state (Latinobarómetro, 2020[59]). Corruption also stifles the private sector, limits competition and hinders innovation. In Honduras, medium-sized firms are the most impacted by corruption, and they are frequently asked to pay bribes or give gifts to obtain services or to secure a government contract. Given the high levels of labour informality, estimated at 71% of total non-agricultural employment, existing estimates on the impact of corruption on small firms are likely to underrepresent the real impact. Honduras is placed as one of the worst performers in the control of corruption and, more concretely, as the world's 20th most corrupt nation and the third most corrupt country among the LAC countries, just after Venezuela and Nicaragua (Transparency International, 2020[60]).

The rule of law and accountability mechanisms in Honduras have deteriorated, placing the country in the lower quartile worldwide and significantly below the regional average. The World Justice Project indices show the country's precarious respect for the rule of law, with low levels of accountability of the executive (WJP, 2021[61]). More than half of all firms identify the court system as a major constraint, compared to the average of 20% in the region. High business costs due to crime and violence, de facto unequal application of laws and regulations favouring politically connected incumbents, and weak protection for property rights and contract enforcement pose serious challenges for the Honduran business environment. Close to 80% of privately owned land is either untitled or improperly titled (Almeida et al., 2020[31]). In addition, disputes tend to take years to settle in court due to the weak judicial system, whose independence has declined. Checks and balances are weak and the freedom of the press has deteriorated lately (World Economic Forum, 2019[47]).

Figure 1.2. Index of Public Integrity



Note: Higher scores indicate better performance.
Source: European Research Centre for Anti-Corruption and State-Building, 2021.

Civil society organisations operate in a shrinking environment where they face important financial, legal and political challenges, including threats to personal safety. Multifaceted barriers, such as the lack of resources and complex relationships with public authorities, prevent civil society organisations from operating to their full potential. As discussed in Chapter 5 of this Review, recent changes in the legal framework concerning the laundering of assets expose civil society organisations and their members to deeper scrutiny from the judiciary and the police, potentially imposing heavier pressures and resulting in increased obstacles to their activities. The narrowing space for civic society is correlated with the abuse of force by the police and the army (Human Rights Watch, 2020[62]), to numerous violations of human rights (Inter-American Commission on Human Rights, 2019[63]), and more generally to high levels of violence and crime.

The trust of citizens in the state and their confidence in democracy is a major problem. About one-third of Hondurans report not being satisfied with democracy and more than two-thirds would accept an undemocratic government if it were able to solve the country's problems (Latinobarómetro, 2020[59]). Mistrust towards the National Congress has increased significantly in the past decade, and the number of people declaring not to have any trust in it doubled since 2011. The same trend can be observed when analysing citizens' trust in the judiciary, the executive, the national electoral institution (National Electoral Council) and the police. There is a widespread opinion that the country is governed by a few powerful groups acting in their own interests and that not everyone is equal before the law (Latinobarómetro, 2020[59]). Combined with evidence of weak and unequal service delivery, declining checks and balances, fiscal vulnerability and suboptimal budgeting for results, these trends highlight the country's fragility and call for urgently improving its public sector's effectiveness.

Recent efforts to strengthen integrity and accountability have yielded mixed results

Honduras has reinforced its institutional framework across several dimensions to strengthen integrity, but weaknesses persist and recent shocks have the potential to reverse critical achievements. Despite challenges, reforms towards increased accountability were implemented in the health sector, and a number of efforts were undertaken in the fight against corruption. These include a self-assessment of progress in relation to the United Nations Convention Against Corruption; a monitoring agreement with Transparency International; and engagement in international multi-stakeholder initiatives such as the Open Government Partnership, the Extractive Industries Transparency Initiative, and the Construction Sector Transparency Initiative.

Two important entities supporting the fight against corruption have recently seen the light: the Special Commission for the Depuration and Transformation of the National Police, and the Mission to Support the Fight against Corruption and Impunity (MACCIH). Created in the wake of protests motivated by the theft scandal involving the Honduran Social Security Institute, the MACCIH was an international co-operation entity supported by the UN, the Organization of American States and the Government of Honduras. Its ultimate objective was to improve the Honduran justice system in the prevention and fight against corruption through active collaboration, advice, and supervision. It passed new legislation and worked with the Public Prosecutor's Office in high profile cases that sentenced two former presidential appointees and a magistrate of the Judiciary Council, among others. However, a law that blocked MACCIH jurisdiction over Congress was passed, postponing the prosecution for misuse of funds. The MACCIH was eventually dissolved in 2020. In 2022, the government of Honduras solicited the creation of a UN-backed International Commission against Impunity (CICH), which would follow on from the MACCIH in the fight against corruption and the misuse of public funds.

However, evidence from other countries shows that dealing directly with corruption – ensuring that corruption is detected and sanctioned – is important yet not sufficient. There is a need to evolve from a reactive culture of enforcement towards a proactive culture of integrity that manages to effectively and

efficiently prevent corruption risks and safeguards democracy (OECD, 2018[64]). Indeed, corrupt practices evolve and adapt. To tackle corruption in a sustainable way, the OECD Recommendation on Public Integrity stresses that it is key to build a culture of integrity in the whole of government and society (OECD, 2017[65]). In a nutshell, a culture of integrity is achieved by ensuring that all relevant actors co-ordinate and co-operate in a strategic manner, by promoting ethical leadership, fostering a merit- and values-based civil service, and by managing integrity risks efficiently, while enabling effective internal, external and social controls (OECD, 2020[66]).

To achieve sustainable impact in the area of anti-corruption, it is therefore key that Honduras strengthen the institutional backbone and capacities that allow effective identification and management of integrity risks in different areas; reinforce mechanisms of monitoring and evaluation; and support more comprehensive open government initiatives, as highlighted in Chapters 4 and 5. As such, more efforts are needed to strengthen and support institutions such as the Supreme Audit Institution of Honduras, the High Court of Auditors (*Tribunal Superior de Cuentas*, TSC), the National Office for the Integral Development of Internal Control (*Oficina Nacional de Desarrollo Integral del Control Interno*, ONADICI), the General Directorate for Civil Service (*Dirección General de Servicio Civil*), and the National Electoral Council (*Consejo Nacional Electoral*, CNE), and eventually international initiatives and commitments to fight and prevent corruption, among others. At organisational levels, the internal audit offices, the transparency units and the ethics commissions are important to ensure that national policies are mainstreamed throughout the public sector and effectively implemented. The recent creation of the Transparency and Anti-corruption Secretariat (*Secretaría de Transparencia y Lucha Contra la Corrupción*) is an important step, as that body can steer and articulate the different actors and thus work towards establishing an integrity system in Honduras.

Conclusion

Despite improvements in some policy areas, such as education, Honduras still faces critical challenges and ranks behind its regional peers in several dimensions. Major inequalities, social exclusion and low trust represent common denominators in public life. For instance, education outcomes, even if they have improved significantly over the past decades, are poor despite high levels of spending. Access to and quality of services and infrastructure are low and unequal, especially for rural communities. Resilience to shocks, as highlighted by the COVID-19 pandemic and climate-related hazards, is low and puts the country in a vulnerable position, particularly with regard to public finances and productive sectors. Challenges in public governance are at the root of such outcomes. Corruption and capture of institutions by vested interests further divert resources and distort investments away from public services, foster inequalities, and ultimately limit the accumulation of human capital, pushing many to migrate.

In this context, improving the effectiveness of the public sector is crucial to reinforce the social contract, foster trust and put Honduras on the path of sustainable and inclusive development. First, better strategic planning and co-ordination in the public sector is instrumental for optimising spending, focusing on impact and building resilience, as explored in depth in the next two chapters. Chapter 2, “Improving policy co-ordination at the centre of government”, assesses the capacity of the centre of government of Honduras to lead whole-of-government policy co-ordination, highlighting important steps in establishing formal mechanisms for co-ordination while drawing attention to their weak implementation. Similarly, Chapter 3, “Strengthening the Results-Based Management framework in Honduras”, describes the functions and processes of the framework, highlighting the challenges in its implementation. Secondly, improved monitoring and evaluation is crucial to design better and more evidence-based policies, maximise the impact of spending, and strengthen accountability. Chapter 4, “Strengthening monitoring and evaluation in Honduras”, analyses several related elements such as the legal framework of monitoring and evaluation systems, the mandates of institutional actors, the availability of data and the overall impact on policy making. Finally, supporting and reinvigorating the country’s open government agenda represents a

fundamental step toward a more transparent, accountable and participatory government. Chapter 5, entitled “Open Government in Honduras: Towards effective implementation”, looks at that agenda and highlights important progress in establishing rules and governance mechanisms to deliver a more transparent and accountable government, but also points to important challenges related to weak implementation and evaluation. These chapters provide in-depth analyses, offer a comprehensive view of the respective challenges, and suggest specific recommendations to overcome them within the specific country context outlined in this introductory chapter.

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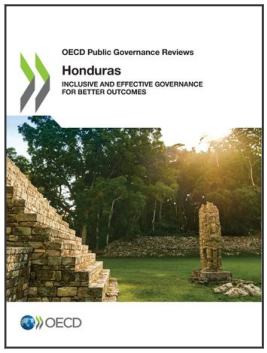

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