

HONDURAS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: HONDURAN LEMPIRA (HNL)

POPULATION AND GEOGRAPHY

Area: 112 490 km²
Population: 9.265 million inhabitants (2017), with an annual growth rate of 1.8 % (2010-2015)
Density: 82 inhabitants / km²
Urban population: 56.5 % of national population (2017)
Urban population growth: 2.9% (2017 vs 2016)
Capital city: Central District (Tegucigalpa-Comayagüela) (13.8% of national population)

ECONOMIC DATA

GDP: 46 billion (current PPP international dollars), i.e. 4 986 dollars per inhabitant (2017)
Real GDP growth: 4.8 % per year (2017 vs 2016)
Unemployment rate: 4.5% (2017)
Foreign direct investment, net inflows (FDI): 1 265 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.08 % of GDP (2017)
HDI: 0.617 (medium), rank 133 (2017)
Poverty rate: 16% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Honduras is a unitary country with presidential government system. The President of the Republic is elected directly for four years. Legislative power is vested in the National Congress (unicameral) with 128 deputies elected by universal suffrage. The judiciary is formed by the Supreme Court of Justice, the courts of appeal and the courts.

The 1982 Constitution acknowledges municipalities as autonomous institutions governed by municipal councils (*corporaciones*), headed by a mayor and made up of municipal councillors (*regidores*), who are elected every four years. The last local elections took place in 2017, concurrently with general elections.

Effective decentralization was initiated in the 1990s as part of the State Reform and Modernisation Programme with the aim of ensuring political and administrative modernisation, as well as administrative and political decentralisation. In this context, the Municipalities Act was adopted in 1990 (Decree 134-90), but revised several times (last Decree 89-2015). According to the Municipalities Act, municipalities have the capacity to decide on their own administration, collect their own resources and decide on their own budget and local development plans (Arts. 12 and 13).

The current framework for decentralisation was further complemented by the Pact on Decentralisation and Local Development (2005), which is overseen by the Human Rights, Justice, Governance and Decentralization Secretary (SDHJGD), in charge of implementing national policies on decentralisation. In 2012, the National Policy for Decentralisation and Local Development was adopted to foster fiscal and political decentralisation by guaranteeing sustainable transfers from the central government to municipalities. This national policy was followed by the Law on Decentralisation adopted in 2016 to provide municipalities with greater autonomy in the management of local public services and budget execution. Yet in practice, Honduran local governments still lack the necessary capacity to effectively carry out their duties and manage their resources.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities (<i>Municipalidades</i>)			
	Average municipal size: 31 090 inhabitants			
	298			298

OVERALL DESCRIPTION. The territory is divided into 18 departments, which are in turn divided into 298 municipalities. Municipalities are the only decentralized level of government in Honduras, while the central government is represented at the regional level in the departments.

Departments. They are administered by a governor appointed by the executive and assisted in its functions by a General Council. The Governor represents the executive power at departmental level and is responsible for monitoring the compliance of municipal policies with national policies. The Law on Spatial Planning assigns a specific role to the departments for spatial development, coordination with local actors, evaluation and monitoring. It also refers to the possibility of creating departmental and democratic governments, based on popular consultation, with specific complementary powers and responsibilities to those of the national and municipal levels.

MUNICIPALITIES. The 298 municipalities include the central district, made up of the municipalities of Tegucigalpa and Comayagüela (art. 295 of the Constitution). The number of municipal councillors of each municipal council varies within a range of four to ten, depending on the municipal size. In Honduras, 271 municipalities (91%) have less than 50 000 inhabitants, while the 13 largest municipalities are home to 45% of the national population. In addition, the Municipalities Act provides for the sub-division of municipalities for administrative purpose into cities, villages and hamlets, and the sub-division of cities into districts and neighbourhoods (art. 17).

INTER-MUNICIPAL COOPERATION. Inter-municipal cooperation (*mancomunidad*) is entrenched in the Chapter II of the Municipalities Act. The municipalities with a positive vote of two thirds of the members of the municipal council may associate with each other or with other national or foreign entities, to better comply with their duties and attributions. These associations are governed by municipal agreements. The Association of Municipalities of Honduras (AHMON), created in 1962 to foster inter-municipal cooperation, currently identifies 45 inter-municipal associations across the country.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Municipalities Act, municipalities should ensure "the wellbeing of their population, promote their integral development and the preservation of the environment" (Art. 14). The SDHJGD divides municipalities into four categories according to their capacity to meet their assigned responsibilities: A (high capacity), B (intermediate capacity), C (low capacity) and D (very low capacity). According to the latest categorization (2015), only 23 municipalities have significant administrative capacity to assume greater responsibilities.

The Municipalities Act also establishes that local authorities must fulfil their responsibilities for the provision of services directly or through agreements with national or autonomous institutions or contracts with public or private entities. Municipalities that form part of a common urban area may create an association of municipalities for the provision of public services (Art. 16.b). Moreover, local authorities must promote community participation in local affairs.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Internal administration
2. Public order and safety	Regulation of urban and interurban circulation; Fire-fighting services
3. Economic affairs/transport	Development and maintenance of urban and local roads, sidewalks and beaches, urban transportation; Development, management and maintenance of local electric distribution systems (in cooperation with the national corporation); Development and regulation of commercial and industrial activity; Promotion of tourism
4. Environmental protection	Waste and sewerage management and street cleaning; Protection of the environment, ecology and reforestation
5. Housing and community amenities	Municipality development plans, and coordination with national development plans Urban development, planning and regulations, land use; Drinking water supply, street lighting; Cemeteries
6. Health	Public health and wellbeing of the population; Control of public markets and slaughterhouses
7. Recreation, culture & religion	Control and regulation of public entertainment, including restaurants, bars, nightclubs, sale of alcohol; Culture and recreation, education and sports. Protection of heritage and local traditions
8. Education	Development of tourism, culture, leisure, education and sport activities
9. Social protection	Development of policies to support child, youth, elderly, persons with disabilities

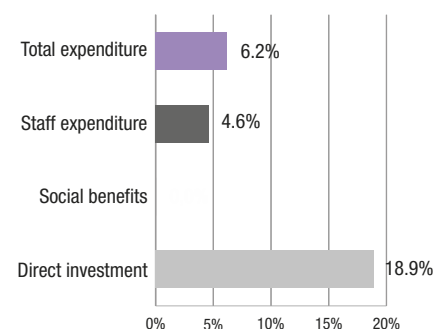
SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: Municipalities.	SNA 1993	Availability of fiscal data: Medium	Quality/reliability of fiscal data : Medium
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GENERAL INTRODUCTION. The Constitution, the Municipalities Act and the National Policy for Decentralisation and Local Development establish the fiscal framework and the main financial mechanisms for local government in Honduras. The degree of decentralisation of resources and expenditures is in line with the average of the Latin America region. In recent years, Honduras has experienced a re-concentration of resources and expenditure at the central level, with a 60% decrease in the contribution of local governments to total revenues between 2005 and 2015, and a 49% decrease in total expenditures over the same period.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2014	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	89	2.2%	100%	
Inc. current expenditure	52	1.3%	58.0%	
Staff expenditure	24	0.6%	26.4%	4.6%
Intermediate consumption	9	0.2%	10.0%	
Social expenditure	0	0.0%	0.0%	
Subsidies and current transfers	4	0.1%	4.1%	
Financial charges	16	0.4%	17.4%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	37	0.9%	42.0%	
Capital transfers	8	0.2%	9.0%	
Direct investment (or GFCF)	29	0.7%	33.0%	18.9%



EXPENDITURE. According to a 2017 IADB report, local governments' contribution to public expenditures in Honduras is close to the regional average. However, local governments' share in public expenditure and GDP has declined over the last decade (from 13.6% of total public expenditure and 3.7% of GDP in 2005 to less than 7% and almost 2% in 2014, respectively). Current expenditure represents about 58% of the local governments' budget (of which 17.4% corresponds to financial charges) – according to the law, current expenditure must be between 40% and 65% of municipal budgets depending on the amount of local revenue.

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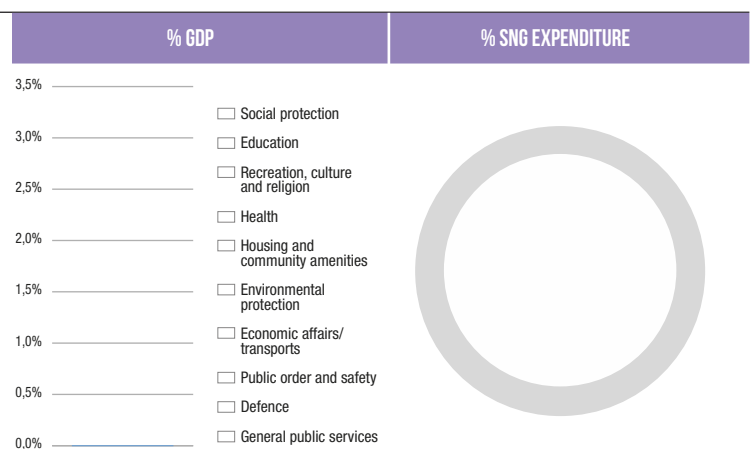
DIRECT INVESTMENT. Direct investment by municipalities accounts for one-third of total sub-national government spending. They constitute a relatively significant share of national public investment (19% in 2014) - noting that total national public investment represents barely 3.8% of GDP in 2014. The conditions for intergovernmental transfers stipulate that 69% of transfers from the state to municipalities must be devoted to capital investments (although in practice, many municipalities allocate these transfers to operating expenses).

In general, investments are concentrated in large urban areas. However, an IADB study points out that the share of small municipalities (less than 5 000 inhabitants) in public investment was higher than that of large municipalities (more than 500.000 inhabitants) with percentages of 58.3% and 5.7% respectively of total SNG expenditures in 2014.

In 2015, the Commission for the Promotion of Public-Private Alliances (COALIANZA) was established. The idea was to promote an alternative to supplement the financial resources allocated to municipalities for project implementation. Within the framework of these alliances, local investments are mainly devoted to hydraulic infrastructures (drinking water and irrigation), markets and terminals.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

There is a lack of concise data at the municipal level on expenditures by economic function. The central government is responsible for the management and financing of the main social services, such as health or education. The Municipalities Act defines minimum percentages of central government grants to be allocated to programmes for children and young people (1%), support for women and the fight against gender-based violence (2%), or the development of social infrastructure projects (13%). Municipalities may use up to 15% of the grants for administrative expenses, with the exception of municipalities with own revenues of less than 500 000 lempiras (around \$20 000), which may devote up to 30% of their budget to cover these expenses.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2014	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	104	2.5%	8.1%	
Tax revenue	24	0.6%	3.0%	23.4%
Grants and subsidies	47	1.2%		45.5%
Tariffs and fees	20	0.5%		19.5%
Property income	5	0.1%		4.4%
Other revenues	7	0.2%		7.0%

OVERALL DESCRIPTION. The central government of Honduras has committed to increasing the share of revenue transferred to local authorities from 5% in 2010 to 20% by 2017 and 40% by 2038. In 2013, the share of local revenues in total general government revenues was 11.8%, but by 2014 it had fallen to 8.1%. Per capita own resources increase with municipal size while transfers decrease with population size.

Municipal revenues have different sources: transfers (accounting for 45.5% of SNG total revenues in 2014), tax revenues (23.4%) and non-tax revenues (30.9%).

TAX REVENUE. The Municipalities Act sets that municipalities cannot approve or change taxes. The Act further establishes in its article 91 (following the 2009 amendment) that 11% of central tax revenue must be transferred to municipalities.

In addition, municipalities receive revenue from local taxes. These local taxes represent about 43% of local own revenues in 2014. They mainly include the tax on industry, commerce, and service; the tax on extraction and exploitation of livestock resources; the property tax and the personal income tax. In the case of personal income and sales taxes, these taxes are collected directly by the municipalities but their base is shared with the central government. The base for these main tax categories is highly related with population density, which is why small municipalities are highly dependent on block grants as an almost exclusive source of revenue. Property tax represented 12% of local own revenues in 2014; municipalities don't have the power to change its base. Other sources of tax revenue include the tax on natural resource extraction (including mining) and communication, as well as taxes over billiard and controlled products.

GRANTS AND SUBSIDIES. According to the Municipalities Act, the central government shall allocate a percentage of general government's annual tax revenue to municipalities each year in the form of monthly advance, of which 15% is earmarked for administrative expenditures, 13% for operation and maintenance of social infrastructure, 2% for social development and gender-based violence prevention, 1% for child and youth protection programs and the remainder for

public investment (69%). The percentage of general government's tax revenue to be allocated as grants to municipalities grew at an annual rate of 1%, from 7% in 2010 to 11% in 2014.

The transfer's allocation is based on criteria specified in the Municipalities Act, which states that 50% of the transfers must be distributed equally between municipalities, 20% according to the share of population and 30% according to the share of population living below the poverty line (art. 91).

Although Article 91 of the Municipalities Act was revised in 2009 to increase the equalization effect of the transfer (by focusing on the share of poverty in the population), this transfer generates horizontal inequalities, by providing a fixed amount to each municipality regardless of its wealth and size. This current transfer system benefits small municipalities that receive 10 times more per capita than the amount received by the most populous municipalities.

OTHER REVENUES. Non-tax revenues represent 52% of local own revenues. Local fees are related to the provision of direct and indirect municipal services, rental of municipal property or assets, building, penalties, fines and improvement taxes, which are contributions paid to municipalities by the potential beneficiaries of the municipal works until the municipality has partially or totally recovered its investment.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	67	1.4%	7.7%	100%
Financial debt*	41	0.9%	6.6%	62%

* Currency and deposits, loans and bonds

FISCAL RULES. The Mayor is in charge of formulating and elaborating the programme budget every year before submitting the draft budget to the municipal council for approval. The approved budget must be then presented to the Ministry of the Interior and Justice. Local governments must prepare a balanced budget which covers both current and capital expenditures.

DEBT. The Municipalities Act allows municipalities to enter into loans and other financial transactions with any national institution (Art. 87). Municipal debt is limited to 20% of the regular revenues of municipalities and loans may be used for authorized purposes only. Nonetheless, a World Bank report pointed out that in 2010, 28 local governments took out new loans in excess of the 20 percent of revenue ceiling.

In 2016, SNG debt amounted to 1.4% of GDP and 7.7% of general government debt. The financial debt accounted for 62% of SNG debt while the “other accounts payable” category (debt to suppliers and arrears) amounted to 38% of SNG debt, reflecting the difficulties of Honduran municipalities in dealing with their financial obligations. The financial debt was entirely made up of loans, although municipalities may issue bonds to finance works and services, with the authorization of the Ministry of Finance and Public Credit and after obtaining the prior approval of the Board of Directors of the Central Bank of Honduras. When loans are granted by foreign entities, the procedures set out in Law 41 on public credit must be followed.



Lead responsible: UCLG
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www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.

Fiscal data: Secretary of Finance of Honduras (SEFIN; Central Bank of Honduras // IMF-GFS.

Other sources of information: Asociación de Municipios de Honduras (AHMON) – web portal // Instituto de Acceso a la Información Pública – Portal Único de Transparencia; Porto, Augusto // Eguino, Huáscar and Rosales, Walter (November 2017) Panorama de las finanzas municipales en América Central, IADB // Secretaría de Derechos Humanos, Justicia, Gobernación y Descentralización (2015). Categorización Municipal en Honduras // Secretaría de Gobernación; FOSDEH (2017) El proceso de descentralización, ¿Política de Estado o Política de Gobierno? // Sethi, Geeta et al. (2013) Public expenditures for decentralized governance in Honduras: towards restoring fiscal consolidation. Public Expenditure Review (PER), World Bank Group.