

HONDURAS

UNITARY COUNTRY

LATIN AMERICA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Honduran lempira (HNL)**

POPULATION AND GEOGRAPHY

AREA: **112 492** km²

POPULATION: **7.962** million inhabitants (2014),
an increase of 1.5% per year (2010-14)

DENSITY: **71** inhabitants/km²

URBAN POPULATION: **54.7%** of national population

CAPITAL CITY: **Tegucigalpa** (13.33% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, <http://publications.europa.eu>, ILO

ECONOMIC DATA

GDP: **39.1** billion (current PPP international dollars)
i.e. 4 909 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 294** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **22%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.606** (medium), **rank 131**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
298	-	-	298
MUNICIPALITIES			
AVERAGE MUNICIPAL SIZE: 26 718 INHABITANTS			

MAIN FEATURES OF TERRITORIAL ORGANISATION. Honduras is a unitary country with a single level of sub-national governments composed of 298 municipalities. The country is also divided into 18 departments (departamentos) for administrative purposes. Departments are hierarchically above municipalities. They are headed by departmental governors appointed by the central government, and represent central authorities in each department; they are in charge of monitoring the compliance of municipal policies with national policies. Municipalities are enshrined in the Constitution. They are autonomous, and are led by a municipal council (corporacion) led by a mayor. Municipal authorities are elected democratically.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. According to the Municipalities Law passed in 1990, municipal competences are largely focused on local services and small scale infrastructures. Local functions include urban planning, sanitation, water supply, construction and maintenance of municipal roads, cemeteries, markets, environmental protection, parks, fire brigades, etc. Since this law that initiated the decentralization process, numerous reforms have been launched towards strengthening decentralization, yet, they have been partially implemented. Besides, as there is only one-tier of local governments, subnational governments in Honduras are very heterogeneous and the Secretariat of Interior and Population divides municipalities into four categories: A (High Capacity), B (Intermediate Capacity), C (Poor Capacity), and D (Very Poor Capacity). Only a small set of municipalities (approximately 23) have substantive administrative capacity to assume greater responsibilities.

SUBNATIONAL GOVERNMENT FINANCE

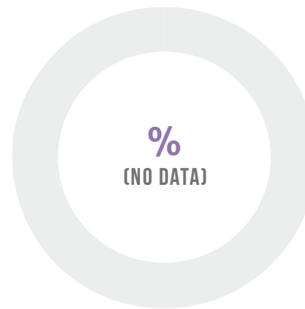
EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	3.0%	10.4%	100%
CURRENT EXPENDITURE	1.3%	-	42.8%
STAFF EXPENDITURE	0.5%	4.3%	17.8%
INVESTMENT	1.7%	37.2%	57.2%

Municipal investments have been steadily increasing, and it represents a growing share (57.2% of total public investments in 2013) of total public investment, as capital spending at the national level have been relatively low (3.4% of GDP in 2012). Yet it still represent an insufficient share of GDP (1.7%) and investments are very concentrated in large urban areas, which means that numerous smaller municipalities do not meet investment targets.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



With around 27 000 inhabitants on average, most municipalities in Honduras lack the capacity to efficiently finance and manage high-level services. Besides, there is a lack of concise data at the municipal level regarding expenditure by economic function. The central government is still responsible for the management and financial of main social services (health, education).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	2.9%	11.8%	100%
TAX REVENUE	0.7%	4.0%	22.8%
GRANTS AND SUBSIDIES	1.8%	-	62.4%
OTHER REVENUES	0.4%	-	14.7%

The Central government of Honduras has pledged to increase the share of revenues transferred to local governments from 5 in 2010 to 20% by 2017 and 40% by 2038. In 2013, this share was of 11.8%.

TAX REVENUE. 30% of municipal tax revenues (on average over 2002–2011) come from the tax on industry, trade and services. The second largest source of municipal fiscal revenues is the property tax (15% of tax revenues); municipalities can also collect a personal income tax (6% of tax revenues). Municipalities are not able to set taxes; all taxes must be established by the National Congress, which is an important constraint to local governments' exercise of their responsibilities. In 2011, in response to the initiative of several mayors who imposed municipal security taxes to meet public security needs, and which in some cases raised significant revenues for the municipalities, the central governments designed a unified system for security tax collection to be implemented in 2012. This system should function through tax collection by the State through the SEFIN, and then reallocation to local governments units. Yet, the new system is very slow to be implemented and in the meantime, some municipalities, who had lost funding from the previous tax, have created a new mechanism to replace it under a new tax rate: "governability rate"

GRANTS AND SUBSIDIES. According to the Municipalities Law, transfers to municipalities to the central government are divided into two types: monthly transfers from the Finance State Secretary (*Secretaría de Estado en el Despacho de Finanzas, SEFIN*), and quarterly transfers from the SEIP. SEFIN funds consists in 11% of budgeted national tax revenues. Transfers are distributed according to the following formula: 50% equally across municipalities, 20% according to municipal population, and 30% based on the share of population under the poverty threshold. The transfer system aims to encouraging public investments, to accompany decentralizing public investment responsibilities, and 90% of the grants are capital grants. 1% of transfers are earmarked for programmes in favor of children and adolescents, 2% for programmes in economic development and gender equality, 13% for operating and maintenance in social infrastructure. Growing fiscal deficit at the central level make mandated intergovernmental transfers difficult and costly to ensure on a regular basis

OTHER REVENUES. Other municipal revenues include municipal fees, municipal rights, fines, property revenues, sale of assets, etc.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	-	-

Municipalities are able to borrow with the approval of the central government. Moreover, borrowing is mostly limited to the period of the municipal government mandate (4 years maximum). Repayment of debt should not exceed 30% of transfer receipts.

A joint- study of:



Source of Statistics: IMF Government Finance Statistics • Asociación de Municipios de Honduras AMHON • Ley de Municipalidades • USAID (2012), Análisis Integrado de Finanzas Municipales, Base Económica, y Seguridad Ciudadana en Honduras • World Bank (2013), Republic of Honduras Tegucigalpa Municipality PEFA • World Bank (2013), Honduras public expenditure review, towards restoring fiscal consolidation