COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN HONDURAS

Fostering Private Sector Development for a Resilient and Inclusive Economy

May 2022

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA
IFC International Finance Corporation

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EXECUTIVE SUMMARY

Country Context

Honduras has significant investment potential, with ample productive resources, a solid industrial base, a market-oriented reform agenda, a strategic location with access to many international markets, and a growing labor force. A variety of microclimates along its fertile plains yield diverse agricultural products, while clean lakes and coastal resources with fishing grounds in two oceans have made Honduras the world's largest exporter of tilapia and Latin America's second-largest exporter of shrimp. The growing manufacturing sector contributes close to 20 percent of gross domestic product (GDP), and industrial production continues to diversify, supported by the creation of free-trade and export-processing zones, trade liberalization policies and other market-oriented reforms, and the free-trade agreement between Central American countries and the United States. In addition, Honduras is strategically located, and a deep-water port on the northern coast offers convenient access to the US eastern seaboard and the Caribbean. The country's young and growing population is yielding a demographic dividend, which presents new opportunities for economic growth and diversification, especially in the service sectors such as business-process outsourcing (BPO) and in development of digital financial services (DFS).

Honduras's rich endowment of resources and improving business climate have attracted rising levels of private investment, and the country achieved the second highest trade-to-GDP ratio in the Latin America and the Caribbean region prior to COVID-19 crisis. Net foreign direct investment (FDI) inflows to Honduras have averaged 5.6 percent of GDP over the past 20 years, well above the regional average of 3.2 percent. FDI inflows are concentrated in the manufacturing and telecommunications sectors. Trade flows have averaged 117 percent of GDP since 2000, nearly three times the regional average of 43 percent. However, growth of trade and investment decelerated in recent years, prompting the need for the government to increase efficacy in facilitating trade, thus creating a virtuous cycle that encourages further investment.

However, large-scale investment and trade have yet to generate rapid economic growth and robust poverty reduction. With 9.9 million inhabitants and a per capita annual income of US$2,340.10 in 2020, Honduras remains the second-poorest country in the Western Hemisphere after Haiti: nearly one in six Hondurans lives on less than US$1.90 per day, while annual per capita income growth has averaged just 1.2 percent since 1960. A heavy reliance on agriculture, a high rate of informality across all sectors, high vulnerability to external shocks, including natural disasters, combined with high crime rates and violence, political instability, and a weak institutional and business environment inhibited economic growth and perpetuated structural poverty. Robust foreign investment has generated limited cross-sector spillovers, while inefficient public investment management and burdensome regulatory requirements constrain the development of new economic opportunities. In turn, sluggish economic growth and a limited distribution of returns exacerbate crime and incentivize migration, contributing to a vicious cycle of persistent poverty and underdevelopment.

Facilitating private investment beyond the current FDI-oriented sectors will be crucial to accelerating economic growth and broadening the distribution of returns. While the government has made considerable progress in expanding economic openness, private sector development remains constrained by a weak regulatory and business environment. Honduran firms cite complex tax policies and onerous tax administration as the top constraints to doing business, followed by insecurity due to crime and violence; limited access to finance, especially for micro, small, and medium enterprises (MSMEs); inadequate infrastructure, especially road networks and public utilities; an undereducated and inadequately skilled labor force; and weak rule of law, policy uncertainty, and other governance issues. Such an adverse business climate severely undermines competitiveness, productivity, and return on investment across the private sector.

The Impact of the COVID-19 Pandemic and Tropical Cyclones

The economic shocks induced by the COVID-19 crisis have underscored the urgent need to create high-quality jobs and accelerate private sector growth. The pandemic has taken a particularly heavy toll on Honduras by regional standards: as of March 2022, Honduras had reported more than 417,000 COVID-19 cases and nearly 11,000 deaths. Honduras entered a sharp recession in 2020, with real GDP growth contracting by 9 percent, year on year. Weak export demand and declining investment inflows, compounded by the prolonged suspension of domestic business activity, caused output to contract across all sectors. In response to the pandemic, the government is implementing its Containment and Response Plan[1] that prioritizes health care and humanitarian services, including aid to poor households struggling to meet their basic needs, as well as targeted support for MSMEs, including favorable loans to the agricultural sector. However, despite a number of temporary macrofinancial measures designed to support companies affected by the crisis, banks impose onerous requirements for MSMEs attempting to access credit, which has prevented many firms from sustaining production and employment during the crisis.

The impact of the crisis was exacerbated by tropical cyclones Eta and Iota, which damaged infrastructure, destroyed crops, and potentially increased COVID-19 infection rates by driving hundreds of thousands of people into shelters. Agricultural production declined because of the extensive flooding of key plantations, which has damaged existing crops and delayed the next cultivation cycle. The resulting shortage of agriculture products adversely affected exports and compromised food security. The social and economic costs of the two tropical cyclones are estimated at US$1.8 billion, or about 7.5 percent of 2019 GDP, with an estimated 20,000 jobs lost. By December 2020, about 10.2 percent of firms had closed permanently, and only 16.2 percent had been able to return to the pre-pandemic level of operations. As a result, about 400,000 people lost their jobs in 2020, with the majority in manufacturing and services. Unemployment increased significantly, especially among smallholder farmers, which will push more households below the poverty line. Poverty under the US$5.50 per person per day line is estimated to have increased from 49.0 percent in 2019 to 55.4 percent in 2020, an increase of more than 700,000 people. Left unaddressed, the economic impact of the pandemic and the two cyclones could inflict lasting damage on productivity, livelihoods, income growth, and social cohesion.

The public and private sectors will both play vital roles in Honduras's economic recovery. Ongoing targeted support will be necessary to address the health and humanitarian consequences of the pandemic, mitigate the resulting increase in poverty and inequality, and support the resumption of economic activity. The pace of the recovery will also hinge on Honduras's trade and investment relationship with the United States and other key partners. Given a supportive policy environment, the light manufacturing (maquila), agriculture, and digital sectors could drive renewed growth. However, the country will need to adapt to a new global and domestic economic context, as the pandemic accelerated the deployment of technologies and production models (for example, digitalization, teleworking, nearshoring) that spurred growth in digital and financial sectors. To support the recovery, the government should work closely with the private sector, which can help ease short-term budgetary constraints while generating long-term gains in employment and poverty reduction. The authorities can catalyze a private sector–led recovery by developing investment opportunities necessary for growth and job creation.

Before the onset of the pandemic, the government outlined strategies for supporting private sector growth, exports, investment, and competitiveness in six priority sectors.[2] These strategies aim to accelerate productive diversification by developing human capital, infrastructure, and logistics capabilities and by improving the regulatory framework and business environment. The six priority sectors are (a) manufacturing, especially automobile parts and electrical equipment; (b) textiles; (c) business-process outsourcing; (d) tourism; (e) agro-processing and related activities; and (f) housing. The Honduras 20/20 Plan targets the creation of 1.26 million jobs by 2025 in the first four sectors alone. The government prepared a Plan for Reconstruction and Sustainable Development, which presents a long-term strategy for rebuilding productive assets and infrastructure damaged by the tropical cyclones, strengthening sustainability and resilience to natural disasters, and expanding social protection programs, among other key priorities. Additionally, the new administration that took office in early 2022 aims to promote the development and modernization of the manufacturing and agro-industrial sectors to stimulate growth, create jobs and reduce poverty through policies aimed at increasing innovation, adaptation of new technologies, product and market diversification, strengthening investment climate and competitiveness, while tackling corruption and crime.

This Country Private Sector Diagnostic (CPSD) is designed to help guide Honduras's private sector development agenda in this challenging and rapidly evolving context. The CPSD prioritizes sectors where more private sector participation could have a significant development impact, whether through job creation, increased value addition, productivity, or spillovers to other sectors; that have the capacity to contribute to export diversification; that government has identified as a priority sector; and that, with necessary reforms, it would be feasible over the near term to unlock the investment potential of the sector. On this basis, agriculture/agribusiness, manufacturing, BPO, and DFS were identified. These sectors have significant potential to drive growth and create jobs and could play a greater role in enabling private sector-led growth in Honduras and export diversification. Specifically, agriculture, as a key pillar of the Honduran economy, can generate jobs by diversifying beyond traditional goods and contributing to foreign exchange via exports. Manufacturing has a strong revealed competitive advantage based on an established industrial base with the potential for moving into more complex, higher value-added products. BPO has the potential to harness a demographic dividend and create jobs and contribute to export diversification by transitioning to higher-value outsourcing services. Increased financial services for MSMEs would allow businesses to invest and add jobs, while digital financial services reduce the business cost and widen the reach of these services for MSMEs.

Agriculture

Due to Honduras's agro-ecological conditions, strategic location, and liberal trade policies, the agribusiness sector offers attractive opportunities for investment, employment creation, and broad-based growth. Agriculture and agro-processing contribute almost 23 percent to GDP and employ 36.5 percent of the national workforce. Honduras's agro-ecological conditions are suitable for producing a wide range of agricultural products and primary commodities; and the country has diverse crop, livestock, forestry, and fishery subsectors. Proximity to large consumer markets in the United States and Canada allows Honduras to overcome the limitations of its small domestic market. Supported by a liberal trade regime, Honduras is a globally competitive producer of coffee, fruits, vegetables, and crustaceans. Strengthening the competitiveness of the poultry, dairy, and staple-grains subsectors could greatly expand the socioeconomic impact of agricultural trade. Honduras also has unexploited opportunities in nontraditional agricultural products, including high-value vegetables, cocoa, cashew nuts, crustaceans, horticulture, and agro-forestry products; and the country can add value to its agricultural export portfolio by improving product quality, expanding processing, and identifying complementary value chains for current products including coffee, avocados, and tilapia.

In the agricultural sector, lack of access to high-quality inputs, financing, infrastructure, logistics services, knowledge systems, and food quality and safety verification, as well as exposure to climate change impacts are key constraints on growth and diversification. Agriculture and agribusiness in Honduras are dominated by small-scale farmers and producers with limited technical knowledge, market information, and financial resources. Market failures inhibit the supply of high-quality inputs, including seeds, fertilizers, and agro-chemicals, while underinvestment in irrigation systems, weak energy infrastructure, and inadequate agro-logistics capacity limit the scope for diversification and value addition. Most food production and processing infrastructure does not meet minimum safety and quality requirements. Limited certification systems, inadequate branding, and regulatory noncompliance restrict access to valuable export markets. Insecure land tenure discourages private investment, and a large informal market results in unbalanced competition. Climate change and extreme weather events (for example, heavy rains, droughts) are major sources of risk in the Honduran agricultural sector, where producers have limited capacity to cope with shocks. The sector would benefit from an institutionalized long-term vision and closer cooperation among public sector stakeholders and between the public sector and producers.

Manufacturing

Honduras's light manufacturing sector, which is largely built on the maquila model,[3] shows a strong revealed competitive advantage in several products. Light manufacturing has led the growth of the Honduran industrial sector since the trade-liberalization reforms of the late 1990s. A combination of increased trade openness, the creation of industrial zones with efficient access to a deep-water port in Puerto Cortés on the north coast, preferential tax treatment, and a relatively low minimum wage in industrial zones helps provide investors with long-term financial security. Over time, light manufacturing has transformed from a simple assembly-based production model to an increasingly sophisticated, vertically integrated sector, driving technological innovation and attracting a large amount of investment. Building on a strong base of relatively low-complexity knitted apparel and a focus on exporting to the US market, Honduras is repositioning itself to compete in markets for more diverse and complex products, including technical textiles, sustainable fibers, and automotive parts and components. As Honduras strives to capture higher-value segments of the production chain, producing woven fabric and artificial fibers (for example, polyesters, synthetics, and synthetic blends), as well as garments made from those materials, will help diversity the product mix and increase the complexity of apparel exports. To advance the development of light manufacturing, Honduran producers can leverage their established business relationships with large brands and retailers. In addition, closer collaboration with Central American countries could yield efficiency gains in the auto-parts subsector by enabling regional firms to engage in more sophisticated forms of production.

Inadequate public services, a lack of appropriate workforce skills, and the limited local sourcing of raw materials present key challenges in the maquila subsector. Producers require more reliable electricity, better security, expanded transportation options, greater access to training, and improved health services for workers. In business surveys, expensive, unreliable power is often cited as a key obstacle that slows the expansion of the maquila and agribusiness industries and prevents firms from developing more complex products with greater value addition. Inadequate local transportation infrastructure and logistics services also pose a major challenge for export-oriented manufacturing, and while some maquila companies within the industrial zones provide regular logistics services, the increased costs associated with limited transportation options could adversely affect future competitiveness and deter foreign investment. In addition, a dearth of investment in the domestic production of raw materials has led to excessive reliance on imports, constraining the ability of apparel manufacturers to expand their product lines beyond basic cotton garments. Insufficient education and workforce skills present another constraint on diversification, and the limited availability of specialized academic and technical training inhibits the production of more complex manufactures. Finally, corruption and crime further increase operating costs, while a burdensome tax administration and a complex customs regime hinder the creation of backward linkages to other domestic sectors.

Business-Process Outsourcing

One of the fastest-growing sectors in Honduras is BPO, which offers opportunities to create high-quality jobs while increasing domestic value addition. Honduras offers an attractive setting for international companies to outsource their business processes, and the country has well-established call centers for customer service, sales, technical support, logistics and freight management capabilities, and other BPO services. Honduras is in the central time zones of the United States and Canada, with access to a young, low-cost, English-speaking labor force that can swiftly develop new technological skills. Increased corporate telecommuting amid the COVID-19 pandemic could intensify demand for BPO services. To take full advantage of this opportunity, the Honduran BPO subsector will need to develop a wider range of higher-value functions and digital services, such as software development, information security, business analytics, and social media production and management. An existing skills mismatch in the subsector offers opportunities for BPO companies to transition an overqualified workforce into new higher-value services, albeit with training programs to close the skills gap.

The growth of the BPO industry is inhibited by insufficient access to telecommunications infrastructure, the inadequate capacity of national telecommunications networks, low levels of broadband penetration, complex registration processes, and skills mismatches. The global BPO industry relies on high-performance bandwidth, but the quality of internet services in Honduras is poor by regional standards. While mobile providers have diversified their networks into cable and satellite services, improving the scale of internet access and data transmission, overall indicators of telecommunications quality have not substantially improved and continue to constrain the growth of BPO. Moreover, the national telecommunications company, Hondutel, does not share public infrastructure despite service-level agreements to compete with the private sector on price and quality. The complex, inconsistent, and slow registration process for BPO companies presents additional challenges to starting a business. Firms also require a tech-savvy workforce to fulfill the requirements of highly skilled jobs, and Honduran workers have little access to training in digital literacy. Finally, as in other sectors, corruption and crime increase operating costs and create negative reputational effects that discourage international investment in Honduras's BPO industry.

Digital Financial Services for Micro, Small, and Medium Enterprises

Expanding access to DFS among MSMEs could catalyze growth and diversification. The Honduran financial sector is stable, liquid, and well capitalized. The sector offers a variety of DFS solutions for MSMEs, including noncash merchant payments, advanced data analytics, underwriting process automation, value-chain and supply-chain financing, and nonfinancial services (for example, business management tools). Nevertheless, many MSMEs require greater financial intermediation, and DFS can offer cost-effective solutions tailored to their unique circumstances. The digital economy itself has enormous growth potential, and various local initiatives and incubators—notably in San Pedro Sula—are fostering digital innovation. Transitioning to e-government services could boost the growth of the information technology subsector—enhancing productivity and accelerating job creation across the economy—and kick-start digital financial flows while improving the quality of governance, lowering the cost of public administration, and facilitating regulatory compliance.

Insufficient capital, limited access to financial infrastructure, and regulatory gaps slow the development of digital financial services among institutions best placed to serve MSMEs. Smaller financial institutions typically lack sufficient financial and human capital to develop digital products. Mobile infrastructure is crucial to the provision of DFS, but access and connectivity are limited. While a range of DFS services are available, MSMEs report difficulty finding institutions offering comprehensive support that meets their needs, including affordable pricing. Meanwhile, savings and credit unions and cooperatives, smaller banks, and microfinance institutions have limited access to the infrastructure required to offer e-wallets; credit or debit cards; and electronic payment acceptance through point-of-sale devices, ATMs, agent networks, or real-time transfers, unless they partner with a large bank. Additionally, the financial regulatory framework does not foster the creation of financial technology firms and is among the most restrictive in Latin America.

Recommendations

Fully leveraging the potential of these sectors will require the government to address key obstacles to productivity and competitiveness. The most binding constraints on private sector development in Honduras are (a) high production costs due to relatively high minimum wages (except in the manufacturing sector), expensive and unreliable electricity, burdensome tax compliance, and security costs associated with crime and violence; (b) insufficient capital due to skills shortages or mismatches arising from inadequate tertiary education and vocational training, limited credit access (particularly among MSMEs) due to high collateral requirements and high borrowing costs, and inadequate infrastructure, especially road networks, public utilities and broadband services; (c) weak governance and regulatory risks due to onerous processes for formalization, market entry and exit, and other elements of regulatory compliance, as well as uneven implementation of laws and policies and a high degree of policy uncertainty.

This CPSD proposes policy recommendations designed to address these challenges and enable the growth of more diverse and sophisticated markets in Honduras (see table ES.1). These recommendations are intended to inform the Honduran government's near-term (3-5) policy priorities and underpin a robust dialogue between policy makers, the private sector, and Honduras's development partners. Recommendations are classified as short term, (1-2 years) or medium term (3-5 years) on the basis of their feasibility given government's capacity and resources to implement. The fiscal implications of some of these recommendations will undoubtedly delay the speed of implementation. The CPSD's recommendations are key inputs into both the IFC's Country Strategy for Honduras and the World Bank's Country Partnership Framework.

TABLE ES.1 SUMMARY OF CHALLENGES, RECOMMENDATIONS, AND IMPLEMENTING AGENCIES BY SECTOR

Agriculture/Agribusiness

Challenges	Recommendations	Implementing agencies	Short- or medium-term
Firm consolidation and supply-chain efficiency			
Small-scale farming and dispersed production prevent the formation of economies of scale.	1. Explore the possibility of expanding digital platforms to connect producers, off-takers, and end markets.	1. SAG	1. Short-term
Export competitiveness			
Limited technical capacity weakens export competitiveness.	1. Support the adoption of irrigation systems, production models, and climate smart technologies that improve productivity and build climate resilience. 2. Explore the possibility of creating private partnerships to provide ICT-enabled extension services. 3. Promote the upgrading of production, post-harvest handling, and processing facilities to meet national and international safety and quality standards.	1. SAG, SEDUCA 2. SAG, ProHonduras 3. SAG, SENASA, ARSA; ProHonduras	1–2. Short-term 3. Medium-term
Inadequate access to finance inhibits productivity growth.	1. Strengthen rural savings funds (cajas rurales) by providing financial assistance and capacity-building in areas such as digital transformation. 2. Support the development of tools to incentivize agriculture insurance; encourage private participation in agricultural insurance by addressing market and regulatory imperfections 3. Explore the possibility of offering public insurance for players that cannot be insured in the private market (for example, providing catastrophe reinsurance based on the models used in Mexico and Spain).	1. SAG, SDE; BCH; BANHPROVI 2. SAG, SDE, BCH, BANHPROVI 3. SAG, SDE, BCH, AHIBA	1. Short-term 2. Medium-term 3. Medium-term

Note: Short-term = 1–2 years; medium-term = 3–5 years. AHIBA = Honduran Association of Banking Institutions (Asociación Hondureña de Instituciones Bancarias); ARSA = Sanitary Regulation Agency (Agencia de Regulación Sanitaria); BCH = Central Bank of Honduras (Banco Central de Honduras); SAG = Secretariat of Agriculture and Livestock (Secretaría de Agricultura y Ganadería); SDE = Secretariat of Economic Development (Secretaría de Desarrollo Económico); SEDUCA = Secretariat of Agriculture and Livestock Honduras (Servicio de Educación Agrícola, Capacitación y Desarrollo Agro-Empresarial); SENASA = National Directorate of Agricultural Health (Servicio Nacional de Sanidad Agropecuaria);

Challenges	Recommendations	Implementing agencies	Short- or medium-term
Weak institutional and regulatory systems undermine the efficiency of public spending and create regulatory distortions.	1. Evaluate and reform public expenditure policies for the agriculture sector and modernize the SAG. 2. Establish a long-term agriculture and agribusiness strategy, and create a clearly defined state policy for the sector. 3. Improve the regulatory environment in the agricultural sector by accelerating the harmonization of national legislation with the RTCAs in areas including fertilizers and agricultural amendments (fertilizantes y enmiendas de uso agrícola), certified seeds (semillas certificadas), and nutritional labeling (etiquetado nutricional). 4. Improve cross-border coordination and switch from a two-border control system to one or none.	1. Government of Honduras, SAG 2. Government of Honduras, SAG 3. SAG, Ministry of Foreign Affairs 4. Ministry of Foreign Affairs, Customs, SAG	1–3. Short-term 4. Medium-term

The light manufacturing/maquila sector

Challenges	Recommendations	Implementing agencies	Short- or medium-term
The business environment and trade facilitation			
The lack of a strategic vision for light manufacturing weakens policy design.	1. Building on the Honduras 20/20 vision, develop a comprehensive strategy for light manufacturing that identifies areas for institutional capacity-building, addresses policy constraints, and fosters an organized collaborative relationship with the private sector.	1. Office of the President, SDE, Pro-Honduras	1. Short-term
Unreliable and expensive energy raises operating costs and diminishes competitiveness.	1. Identify policies to reduce energy costs and promote the adoption of efficient energy, water, and waste-management technologies. 2. Improve energy distribution and bring down the cost of electricity to improve the business environment and attract new investors, especially in the capital-intensive area of textile mills.	1–2. SEN, ENEE, IMF, World Bank Group, and donor community	1-2. Short-term

Note: Short-term = 1–2 years; medium-term = 3–5 years. ENEE = National Electricity Company (Empresa Nacional de Energía Eléctrica); IMF = International Monetary Fund; RTCA = Central American Technical Regulations (Reglamentos Técnicos Centroamericanos);SAG = Secretariat of Agriculture and Livestock (Secretaría de Agricultura y Ganadería); SDE = Secretariat of Economic Development (Secretaría de Desarrollo Económico); SEN = Secretariat of State in the Energy Office (Secretaría de Estado en el Despacho de Energía);

Challenges	Recommendations	Implementing agencies	Short- or medium-term
Limited regional integration inhibits integration into global value chains.	1. Improve regional integration to better capitalize on proximity to the US market. 2. Support efforts to enhance regional integration, particularly via harmonized customs administration within the Northern Triangle.[a] Specifically, streamline customs procedures in the Northern Triangle to create more efficient regional value chains by reducing the time and cost involved in trading across borders.	1–2. SRE, SDE	1–2. Medium-term
Competitiveness and diversification			
Limited sourcing of local raw materials narrows the returns to export-oriented manufacturing.	1. Encourage vertical integration along value chains to increase the competitiveness of the maquila industry and create a more conducive business environment with investment policies that enable the formation of backwards linkages and foster the growth of domestic MSMEs. 2. As the global textiles and apparel sector further consolidates, and major US brands and retailers shorten their supply chains, a more robust, vertically integrated value chain within Honduras could strengthen linkages with MSMEs and expand the economic impact of the sector beyond export-oriented firms.	1–2. AHM, maquila operators	1–2. Short-term
Product complexity			
Insufficient skills inhibit the transition toward higher value-added production.	1. Augment the training currently available through AHM with additional programs focused on more advanced technical skills in areas such as technical supervision and chemical engineering; as Honduras moves more fully into raw materials manufacturing, training will also be required on new machines, especially mechanical looms for woven garments.	1. SDE, ProHonduras, AHM, maquila operators	1. Short-term
Limited amounts of inbound FDI slow capital formation and technology transfer.	1. Strengthen investment-promotion outreach by fostering new strategic partnerships in the maquila industry. 2. Help light manufacturers attract new partners with new technologies and access to new segments of the global value chain, such as fast fashion, through targeted investment missions, the development of tailored investment "pitch decks," and, potentially, though the creation of a one-stop shop for investors.	1–2. SDE, ProHonduras, AHM	1-2. Short-term

Note: Short-term = 1–2 years; medium-term = 3–5 years. AHM = Honduran Maquila Association (Asociación Hondureña de Maquiladores); FDI = foreign direct investment; MSMEs = micro, small, and medium enterprises; SDE = Secretariat of Economic Development (Secretaría de Desarrollo Económico); SRE = Secretariat of Foreign Affairs of the Republic of Honduras (Secretaría de Relaciones Exteriores de Honduras).

a. The Northern Triangle refers to the three countries of Central America: El Salvador, Guatemala, and Honduras.

Business-process outsourcing

Challenges	Recommendations	Implementing agencies	Short- or medium-term
Industrial, residential, and international telecommunications infrastructure			
Insufficient bandwidth, unreliable broadband access, and a limited range of telecom services slow the uptake of digital communications in the industrial sector and limit the diversification of telecom services.	1. Enable CONATEL to promote the construction of fixed-line and cable distribution by streamlining licensing and approval requirements and providing additional incentives to competitive carriers. 2. Support CONATEL in developing policies for shared infrastructure, such as long distance and metro conduit access for competitive cable and expansion of the shared use of other infrastructure such as electrical towers, telecommunications towers, metro and long-distance conduit, and interconnection points, to rapidly deploy high-performance broadband. 3. Form partnerships between CONATEL and public utility and transportation providers to obtain the long-distance easements and rights of way needed to further extend high-bandwidth infrastructure.	1–2. CONATEL, domestic and international telecom firms 3. CONATEL, ENEE, and other utilities or public service providers	1. Short-term 2. Medium-term 3. Medium-term
Low IXP-HN usage, limited access to submarine cable, and weak international fiber links reduce international telecom service capacity.	1. Encourage internet and telecommunications network providers to participate in IXP-HN, preferably without charges. 2. Allow foreign and domestic international telecommunications networks to establish a point of presence in Hondutel-operated cable landing stations. 3. Promote the development of additional international fiber links, including terrestrial and submarine cables, and support efforts by private telecommunications companies to build and operate gateway and cable landing stations.	1–3. CONATEL, private telecom firms and internet service providers	1–3. Short-term

Challenges	Recommendations	Implementing agencies	Short- or medium-term
Electricity quality and stability			
Frequent power outages and lack of alternative power sources increase operating costs and discourage investment.	1. Provide BPO companies with backup power generation via either the facility landlord or the BPO company itself. Provide work-from-home employees with battery backups that can provide at least two hours of power sufficient to operate a computer and maintain a home internet connection. 2. Require carriers to install infrastructure that will minimize or eliminate telecommunications network outages due to power loss, including cellular antennas, distribution points, and backup power sources for end-user distribution that are independent of ENEE.	1–2. Government of Honduras, ENEE, private telecom firms, CNE	1–2. Short-term
The registration process for BPO firms			
A time-consuming, inconsistent, and complex registration process discourages the formation of BPO firms.	1. Simplify the processes for registering BPO firms as formal businesses and as exporters, and consolidate the two processes into a single, standardized procedure.	1. DEI, CONATEL, AHM, ProHonduras, chambers of commerce, international agencies	1. Short-term
Market risk and BPO sector growth			
Global demand is shifting toward more sophisticated BPO services (for example, ITO and KPO), and Honduras's BPO sector may not be prepared to participate in these markets.	1. Assess the competitiveness of the domestic BPO sector in ITO and KPO services and develop a plan to either pivot away from BPO or work with the private sector and academic community to begin developing the necessary skills and infrastructure to compete in global markets for more sophisticated BPO services.	1. Private BPO firms, ProHonduras, Government Innovation Office, Ministry of Education	1. medium-term

Note: Short-term = 1–2 years; medium-term = 3–5 years. AHM = Honduran Maquila Association (Asociación Hondureña de Maquiladores); BPO = business-process outsourcing; CNE = National Energy Commission (Comisión Nacional de Energía); CONATEL = National Commission of Telecommunications (Comisión Nacional de Tele Comunicaciones); DEI = Executive Directorate of Income (Dirección Ejecutiva de Ingresos); ENEE = National Electricity Company (Empresa Nacional de Energía Eléctrica); ITO = information technology outsourcing; KPO = knowledge-process outsourcing;

Digital financial services for MSMEs

Challenges	Recommendations	Implementing agencies	Short- or medium-term
Financial access among MSMEs			
MSMEs lack access to appropriate financial products, including payments and credit.	1. Leverage value-chain data and partnerships with private financial institutions and corporations to develop new lending products and digital platform solutions in order to capture remittance inflows. 2. Increase the flexibility of the INDEL Law; facilitate the creation of real-time, low-value payment systems; strengthen the Factoring Law; and support the development of digital identification. 3. Examine climate risk assessments and stress testing guidelines and work to support private sector actors: banks, insurance companies, and other financial institutions in climate risk management and climate financing, such as finance-linked CSA products.	1. Private financial institutions and corporations 2. BCH, Office of Presidential Priorities and Public Innovation, all digital agenda supporters 3. Central bank and regulators, international development institutions	1–3. Short-term
The fintech ecosystem			
The presence of few fintech firms in Honduras slows technological innovation.	1. Provide fintech firms with access to low-cost financial infrastructure, especially payment systems. 2. Expand fintech regulation beyond the INDEL Law while increasing its flexibility. 3. Promote open banking to allow access to financial-system data.	1–3. BCH, CEPROBAN	1-3. Short-term

Note: Short-term = 1–2 years; medium-term = 3–5 years. BCH = Central Bank of Honduras (Banco Central de Honduras); BCH = Central Bank of Honduras (Banco Central de Honduras); CEPROBAN = Interbank Processing Center (Centro de Procesamiento Interbancario); CSA = climate smart agriculture; fintech = financial technology; MSMEs = micro, small, and medium enterprises;

Challenges	Recommendations	Implementing agencies	Short- or medium-term
MSMEs access to large banks			
Large banks are not motivated to serve MSMEs.	1. Employ new technologies that enable banks to target new customers, create payment platforms to reduce cash-outs, and leverage large corporate clients as anchor firms in value-chain financing.	1. Private banks	1. Short-term
Challenges of small and medium-sized financial institutions			
Smaller financial institutions have difficulty accessing infrastructure utilization at a reasonable cost.	1. Support digitalization among financial institutions. 2. Provide smaller institutions with access to bank-managed financial infrastructure (ACH-Pronto, POS/card infrastructure, ATMs) at a reasonable cost.	1–2. IFC Digilab, BCH, CEPROBAN	1–2. Short-term

Note: Short-term = 1–2 years; medium-term = 3–5 years. ACH = automated clearing house; BCH = Central Bank of Honduras (Banco Central de Honduras); CEPROBAN = Interbank Processing Center (Centro de Procesamiento Interbancario); POS = point of sale;

1. On April 2, 2020, the government presented a COVID-19 Containment and Response Plan costed at US$2.5 billion and requested financial support for its implementation from multilateral development banks and donors.
2. Country Vision 2010–2038, Decree #PMC-015-2016 (2020), and the Strategic Government Plan. Government of Honduras, Country Vision 2010–2038, and National Plan 2010–2022 of Honduras: January 2010. https://observatorioplanificacion.cepal.org/sites/default/files/plan/files/HondurasPlandeNacion20102022.pdf; Government of Honduras, Strategic Government Plan (PEG 2018-2022; El Plan Estratégico de Gobierno), April 2019, https://www.scgg.gob.hn/sites/default/files/2019-06/PEG%202018-2022%20-Versio%CC%81n%20Actualizado%20abril%202019.pdf.
3. The maquila (or maquiladora) model is a form of light manufacturing that focuses on assembly of goods from imported intermediate inputs. Maquilas are typically financed by international corporations and are found throughout Latin America. In Honduras, the maquila subsector is largely devoted to the production of garments and apparel using imported fabric and other inputs.

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