



**USAID**  
FROM THE AMERICAN PEOPLE



USAID'S LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

# **Integrated Analysis of Municipal Finances, Economic Development, and Public Safety in Honduras**

## **An Overview of Municipalities in the Northern Corridor**

*English Translation of Final Report*

**SEPTEMBER 20, 2012**

Contract Number EEM-I-00-07-00005-00, Task Order 11

This publication has been issued to be reviewed by the United States Agency for International Development. Issued by Deloitte Consulting LLP.

# Integrated Analysis of Municipal Finances, Economic Development, and Public Safety in Honduras

## An Overview of Municipalities in the Northern Corridor

*English Translation of Final Report*

<b>Program:</b>	USAID Leadership in Public Financial Management (LPFM)	
<b>Mission:</b>	USAID/Honduras	
<b>Contract Number:</b>	EEM-I-00-07-00005-00	Task Order: 11
<b>Contractor:</b>	Deloitte Consulting LLP	
<b>Publish Date:</b>	SEPTEMBER 20, 2012	

Authors		
David Carias Subject Matter Expert USAID/LPFM <a href="mailto:davidcariasdavila@yahoo.com">davidcariasdavila@yahoo.com</a>	Lourdes Duron Principle Economist USAID/LPFM <a href="mailto:lberselly@gmail.com">lberselly@gmail.com</a>	Roberto Amoretty Municipal Finance Specialist USAID/LPFM <a href="mailto:ramorettiv@gmail.com">ramorettiv@gmail.com</a>

Authors	
Dr. James Wooster Senior Advisor USAID/LPFM <a href="mailto:jwooster@deloitte.com">jwooster@deloitte.com</a>	Luis F. Paniagua Economist USAID/LPFM <a href="mailto:lupaniagua@deloitte.com">lupaniagua@deloitte.com</a>

The authors' views expressed herein do not necessarily reflect the views of USAID or the United States Government.

# Table of Contents

Translation Disclaimer	iv
Acronyms	v
Executive Summary	vii
<b>I. Introduction</b>	<b>1</b>
1.1. Grounds for the Study	1
1.2. Purpose	2
1.3. Goals	2
<b>II. Honduran Municipality Profile</b>	<b>3</b>
2.1. Current Legal Framework	3
2.2. Population Dynamics	3
2.3. Local Institutional Capacity and Information Systems	4
2.4. Municipal Finances	5
2.4.1. Municipal Autonomy	5
2.4.2. Current Revenues	5
2.4.3. Transfers	6
2.4.4. Municipal Debt	7
2.5. Municipal Economic Development	8
2.6. Local Public Safety	9
<b>III. Municipality Selection and Methodology</b>	<b>12</b>
3.1. Phase I: Municipality Selection and Identification	12
3.1.1. Municipality-Specific Variables	12
3.1.2. Cross-Cutting Variables	13
3.2. Phase II: Final Selection and Rationalization	14
<b>IV. Field Visits Results</b>	<b>15</b>
4.1. General Observations	15
4.1.1. On Local Finances	15
4.1.2. On Local Development	15
4.1.3. On Public Safety	16
4.2. Information Systems	17
<b>V. Assessment Results</b>	<b>19</b>
5.1. Municipal Financial Autonomy Ratio	19
5.2. Municipal Tax Burden	20
5.3. Municipal Current Savings or Deficit	21
5.4. Municipal Investment Effort	22
5.5. Municipal Capital Revenues	22
<b>VI. Conclusions and Recommendations</b>	<b>24</b>
6.1. Municipal Finances	24
6.1.1. Short-Term Actions	24
6.1.2. Medium-Term Actions	29
6.1.3. Long-Term Actions	30
6.2. Local Economic Development	30
6.3. Public Safety	31
<b>Annex A: Honduras Map with Selected Municipalities</b>	<b>32</b>
<b>Annex B: Selection Indicators</b>	<b>33</b>
<b>Annex C: Recent Initiatives in Local Citizen Security</b>	<b>39</b>
<b>Annex D: Profile of Analyzed Municipalities</b>	<b>43</b>
<b>Glossary</b>	<b>44</b>

# Translation Disclaimer

*The text of this report has been translated into English for the convenience of the non-Spanish-reading public. If any questions arise related to the accuracy of the information contained in the English translation, please refer to the original Spanish report which is the official and primary version of the document.*

**Official Version: Análisis Integrado de Finanzas Municipales, Base Económica, y Seguridad Ciudadana en Honduras: Una Vista a los Municipios del Corredor Norte**

# Acronyms

Acronym	Definition
AMHON	Honduran Municipalities Association
AJH	Honduran Youth Alliance
CABEI	Central American Bank for Economic Integration
IDB	Inter-American Development Bank
WB	World Bank
CAM	Municipal Office Career
CAP	Community Action for Prosperity
CARSI	Regional Security Initiative for Central America
CCT	Citizen Transparency Commissions
CDM	Municipal Development Board
CEDE	Executive Commission for State Decentralization
CMPV	Municipal Commission to Prevent Violence
CPTED	Crime Prevention through Environmental Design
DEI	Executive Revenue Office
ERP	Poverty Reduction Strategy
FHIS	Honduran Fund for Social Investment
FND	Decentralization National Forum
FVN	National Road Fund
HIGUITO	Higuito River Intermunicipal Board
HONDUTEL	Honduran Telecommunications Company
IAIP	Public Information Access Institute
ICF	Forest Protection Institute
ICS	Industry, Commerce, and Service Tax
IDM	Municipal Development Index
INA	National Agricultural Institute
INE	National Statistics Institute
IP	Property Institute
IUDPAS	College for Democracy, Peace and Security
MAMUCA	Atlántida Center Municipalities Association
MAMUGAH	Honduran Garífunas Municipalities Association
MAMUNCRAC	Aguán and Cuyamapa River Basin Municipalities Association
MDGs	Millennium Development Goals
OECD	Organization for Economic Cooperation and Development
NGOs	Non-Governmental Organizations
OsFD	Organizations for Development
PEDM	Municipal Development Strategic Plan
PDM	Global Development Plans
GDP	Gross Domestic Product

Acronym	Definition
UNDP	United Nations Development Program
PROADES	Decentralization Support Program
RNP	National Registry of Vital Records
SAFT	Finance and Tax Administration Systems
SAMI	Integrated Municipal Administration System
SANAA	National Water Mains and Sewer Service
SEIP	Domestic Affairs and Population Office
SEPLAN	Technical Office for Planning and External Cooperation
SEFIN	Ministry of Finance
SE	Ministry of Education
SIMAFI	Municipal Administrative and Finance System
SINIMUN	National System of Municipal Information
SOPTRAVI	Public Works, Transportation and Housing Office
TSC	High Court of Auditors
UMA	Environmental Municipal Unit
UNAH	National Autonomous University of Honduras
UTD	Decentralization Technical Unit
ZMVS	Valle de Sula Metropolitan Area Association

# Executive Summary

---

## Purpose and Goals of the Evaluation:

The six departments in the Northern Corridor of Honduras have been on the forefront of the economic and social changes that have transformed Honduras over the last forty years. Figures from the National Statistics Institute (INE) forecasts for 2012 show that most of the country population lives in the Northern Corridor, and over 50% of the Honduras' population now lives in urban areas. Similarly, 55% of the Honduras' GDP and 40% of the country's exports are generated from this area. Unfortunately, this area is also on the forefront of the country's upsurge in violent crime that has made Honduras one of the deadliest countries in the world with over 91 homicides<sup>1</sup> per 100,000 inhabitants in 2011.

The purpose of this study is to identify 15 municipalities (see Map in **Annex A**) that have high potential for mobilizing higher levels of own source revenue through taxes, fees, and other charges, in order to play a more proactive role in preventing crime, provide higher levels of safety and protection to citizens, and promote economic development. This report analyzes challenges in each municipality and provides recommendations to overcome these obstacles in three specific areas: mobilization of own source revenues, citizen / public safety, and economic development.

## Approach/Methodology:

**Phase One - Selection:** The first phase of this evaluation involved an in-depth desk study of documents to make a preliminary selection of 25, and then a final selection of 15 municipalities out of the 92 in the Northern Corridor for the technical study. The desk study relied primarily on the extensive multi-year database of economic, social, and fiscal data on Honduran municipalities developed by public-private partnerships, such as the National Statistics Institute (INE), the Honduran Municipalities Association (AMHON), and the Ministry of Finance Office (SEFIN). An index for ranking the municipalities was created combining indicators and data figures from the following areas: (see also the charts in **Annex B**):

- **Financial Indicators:** a financial autonomy index, municipal revenue figures, savings and investment rates;
- **Economic Development Indicators:** urbanization rates, presence of economic activity, public service coverage (water, electricity), and a development index established by the United Nations Development Program (UNDP); and
- **Public Safety Indicators:** homicide rates and crime activity figures.

Preference was given to municipalities with strong financial indicators, high potential for economic development, and high crime rates. In addition, other qualitative factors were then taken into consideration, such as the uniformity of regional coverage and the balance in municipality size and gender. The following table displays the 15 municipalities covered by the assessment.

Department	Atlántida	Colón	Copán	Cortés	Santa Bárbara	Yoro
Municipality	Tela	Sabá	La Unión	Choloma	Las Vegas	Yorito
	La Ceiba	Trujillo	Santa Rosa de Copán	Potrerrillos	Quimistán	Santa Rita
	El Porvenir	Tocoa		Puerto Cortés		

---

<sup>1</sup> Central American Observatory on Violence (OCAVI) homicide statistics, United Nations 2012.

**Phase Two – Field Evaluation:** Two teams were assigned to visit the 15 municipalities.<sup>2</sup> The teams interviewed mayors and specific leaders using a detailed field questionnaire and held self-diagnostic workshops with technical staff. In addition to comparing the already gathered information, the field visits allowed the teams to go beneath the quantitative data already collected to obtain on-the-ground information in critical areas, such as financial management, organization and staffing, policies and procedures, taxpayer registry and compliance, coordination with other bodies such as the national tax authority - Executive Revenue Office (DEI), organization of information, as well as the type and quality of tools used by the municipal technical personnel.

### **Main Conclusions and Recommendations:**

Honduras is one of the most centralized countries in the Western hemisphere. Public services in Honduras are highly centralized and the central government is responsible for delivering many of the services which are typically provided by lower levels of government, such as primary and secondary education, primary health care, municipal policing, and many others. An example of this high level of centralization is the fact that only 8.4% of public revenues are collected by the sub-national level of government, compared to levels that range from 20% and 40% in other western countries. Another example is that municipal governments in Honduras incur only approximately 12.48% of total government expenditures<sup>3</sup>, while the international average is around 35%. By this measure, Honduras is also low in comparison to many Latin American countries such as Mexico, where sub-national expenditures are 29% of total government expenditures, as well as Venezuela (27%), Brazil (37%), Argentina (44%), Bolivia (29%), Peru (20%), and Guatemala (20%). Furthermore, the Municipality Act of 1991 grants Honduran municipalities a very low level of autonomy over many aspects of the revenue sources at their disposal.

The organizational structures, staffing, policies, and procedures that govern many aspects of municipal public administration are very similar across Honduran municipalities. In fact, it is as if the public sector follows a “template” regulating the staff organizational structure and many other details of daily activities of public officers. Many of the findings and recommendations of this report, either explicitly or implicitly, deal with one or more aspects of this “template”. It is worth mentioning that the template bears a striking resemblance to that which governed states of Western and Eastern Europe in a prior period, and it may have been appropriate to a level of economic and social development of an earlier, less dynamic time.

Despite the high level of centralization, some recent accomplishments are worth noting in the realm of municipal governance. The last two decades have seen reforms and legislation that promote citizen engagement, transparency and access to public information, and service provision in areas such as health and water. Promising trends related to health decentralization have been occurring throughout the country, as well as improvements in education at the local level through preferential commercial agreements and other similar organizations. The municipalities have also benefited from increased involvement from regional municipality associations – mancomunidades - through capacity development and information sharing.

The report findings and recommendations cover three main areas: Municipal Finances, Economic Development, and Public Safety and Security. In each of these areas, a set of major challenges general to all 15 municipalities was observed and a set of recommendations is offered to address them. These are detailed in the main body of the report and are summarized as follows:

---

<sup>2</sup> Among these, Yoro was initially selected, but, as the visit coincided with the day of patron saint, Yoro was replaced with Sabá

<sup>3</sup> The information about sub-national expenditures in this section is from the World Bank and the Organization for Economic Cooperation and Development.

## **Municipal Finances**

### ***Major Challenges***

- The Municipality Act of 1991 and its embedded tax laws are overly complex. This is a very serious problem that is beyond the direct scope of municipal authorities, but it may possibly be addressed in the current re-drafting of the Municipality Act.
- Municipal tax administration systems are poorly organized and understaffed – it is not uncommon to have a very low number of officials responsible not only for tax administration, but for all aspects of municipal revenue administration, including transfers, fees, and charges. As a result, the administration of taxes does not receive the focus it needs, and there is insufficient specialization and training for staff.
- Taxpayer Registration is not well organized and compliance is low – in many cases, municipal cadastre registration for property tax was below 70% and in some cases lower than 50%.
- None of the municipalities visited has a coherent and organized system for tax collection and monitoring and evaluation.
- Municipal tax administrators are unable to gauge the tax liability of taxpayers for most taxes. The declaration of tax liability is largely voluntary on the part of the taxpayer.
- There is little to no coordination with the national tax authority, Executive Revenue Office (DEI).

### ***Recommendations***

- Modernize the revenue administration system, focusing first on registration of taxpayers and second on collections.
- Reorganize the revenue department, regardless of the size of the municipality, and increase the number of staff devoted to tax administration, increase the specialization of staff, and provide training.
- Conduct registration, non-filer, and stop-filer campaigns to ensure that all potential taxpayers are captured and in the “tax net”.
- Establish clear, workable policies and appropriate procedures for Honduran municipalities, covering registration, collections, and compliance monitoring.
- Institute a risk-driven compliance program that focuses on large taxpayers.
- Revise internal controls and audit in order that municipalities may achieve independent verification of the taxpayer liability, especially for the largest taxpayers.
- Establish an information sharing program with DEI and with other municipalities.
- Consolidate debt collection schemes with the private sector.

### ***Central Themes***

**There is a need for transformation.** Municipal revenue administrations are governed by an organizational template and style of operation appropriate to a much earlier economic and social period and entirely inappropriate to the economic realities of modern Honduras. This new reality is characterized by high level of domestic and foreign investment, the presence of many large and sophisticated domestic and multinational companies with complex forms of business activities and high levels of entry and exit to and from municipalities. On a positive side, some municipalities, notably La Ceiba, have taken initiative to modify this “template” for their own use by increasing the staffing levels in the revenue administration and by introducing some level of specialization, notably in tax collection. It is also encouraging that the fundamental weaknesses in the design of the major taxes are at least partially offset by a system of intergovernmental transfers that funds approximately 25% of total municipal expenditures.

## **Economic Development**

### ***Major Challenges***

- There is no clear link between regional development initiatives and municipal development activities.
- In each municipality, the Mayor's office generally has a clear picture of the economic potential and a vision, but this message is often lost with stakeholders and the municipal staff.
- There are many types of Development Plans (strategic plans, land-use plans, area plans, and plans based on funding sources), but these are limited in terms of distribution and ownership among stakeholders at the municipal level, and also limited in terms of monitoring, evaluation, and follow up by the respective municipalities.
- The private sector has limited organization and representation in municipal decisions and, thus, minimal interest in local development and local infrastructure.
- The nonexistence of a financing mechanism for social development makes the planning of strategic actions and the execution of long-term investments very difficult.

### ***Recommendations***

- Require coordination and cohesion among existing strategic, departmental and regional plans. Ensure alignment to municipal development goals and regional development initiatives, with the Country Vision Act and the National Development Plan.
- Develop realistic and integrated development plans in line with the annual and multi-annual operational plans of municipalities and include monitoring and evaluation steps.
- Promote private sector involvement and new business investments through outreach campaigns. Encourage the monitoring and follow up on action plans by private sector organizations and civil society to ensure the sustainability of development plans.
- Encourage investment in the development of small and medium sized companies.
- Foster funding avenues that can be accessed by the municipalities and the eligibility rules for funding projects.

### ***Central Themes***

There is a need for creative outreach to attract the private sector to the municipalities. To a very large extent, "planning" often appeared to be an end in itself. Municipal administrations rarely understand their role in "selling" the municipality and in attracting and facilitating external investment.

## **Public Safety**

### ***Major Challenges***

- Significant security problems exist, including: gang activity, domestic violence, drug trafficking and consumption, and an emerging conflict in terms of the security of land tenure, due to a farmers' movement in eastern regions of the Northern Corridor.
- There is a tendency to promote public policies aimed at mitigating the manifestations of safety threats rather than their causes, with the acknowledgment that these causes are many.
- Municipal security initiatives suffer from insufficient funding; an example of this includes the newly established National Security Tax, which has limited the ability of the municipality to collect funds for public safety and for preventive activities.
- There is a lack of clear definition of the municipality's role in public safety and security for its citizens.

### ***Recommendations***

- Leverage experiences with external cooperation projects and local municipal public safety initiatives that have been developed over the last ten years in Honduras, and apply the lessons

learned to improve policies, plans, and programs in this area (see **Annex C** “Recent Initiatives in Local Public Safety”).

- Establish municipal security financing through higher levels of own-source revenue with a local security tax and create a dedicated budget for public safety initiatives that is included in local security plans.
- Establish local safety plans clearly defining the origin of the problem in the municipality, and, based on this, determine the strategic actions that emphasize protecting vulnerable and marginalized groups.
- Emulate successful experiences and best practices among municipalities which have combated insecurity issues by focusing on preventive safety measures and building confidence in the local government.

### ***Central Themes***

Public safety is a major issue within the Northern Corridor and a deeply felt need by the area’s residents. The fact that the level of government closest to the people does not have a direct role in citizen protection and safety is a serious issue. Public safety improvements will result from a greater involvement of the population and the local governments in the areas where the problems exist. Simply put, until this problem is directly addressed through national legislation, standard police services will suffer from the absence of direct accountability to local residents. Nevertheless, some municipalities have made impressive strides in preventive safety measures. The single most important limiting factor in this critical area is financing.

### **Overall Conclusion**

The theme of the **need for transformation in the municipal governance** underscores many of the findings of this report. The deterioration of public safety is just one example of the need for a greater role by the level of government closest to the population and most accountable to its citizens. Other examples, such as the rising level of frustration with the delivery of educational services, are not hard to find. At the same time, there is considerable room for optimism. Based on the observations of the teams in the field, some aspects of a transformation process based on local initiatives are already underway. An example is the public security initiatives in Trujillo, where the mayor and his team have conducted a wide range of activities aimed at preventing crime and keeping youth away from the influence of gangs. La Ceiba is another example, where an effort is underway to reorganize the municipal revenue department to improve the taxpayer registry and to introduce a certain level of specialization in tax collections. On the topic of public safety, Puerto Cortés has had a great experience in building public confidence and implementing a highly successful municipal security program.

The weaknesses of the Municipality Act in the area of own-source revenue mobilization are mentioned in the report. These are very serious and they are compounded by other shortcomings of the law and other pieces of national legislation that have prevented municipalities from assuming a stronger role in the delivery of the public services that, pursuant to the law, the municipalities typically provide. Once again, it is arguable that the transformation is already underway in this key area. Currently, the Municipality Act is under revision, which should address many of the identified weaknesses in the current law by simplifying the tax bases and permitting some level of tax rate flexibility.

# I. Introduction

---

The municipal analysis presented in this study covers three key areas for local development in Honduras, including: 1) municipal financing via own source revenue; 2) the role of the municipality as an advocate and facilitator of economic development; and 3) the municipality's engagement in public safety. These three areas are concerning topics and also “essential” to the improvement of an already weak municipal administration system.

A conversation on local development is not complete without considering how to fund and efficiently use revenues within the realm of local public services. This study allowed the authors to review relevant aspects of the municipal finance system of 15 municipalities in the country's Northern Corridor in order to assess the current environment and also identify: the challenges faced in generating own source revenues, the drivers of local safety plans, and the issues related to local economic development.

The municipal finance system, particularly own source revenue, was taken as the first point of analysis as a strategic area that significantly contributes towards meeting the goals of local governments through improving the living conditions of its citizens as well as supporting local authorities facing the question: How should local development and municipal administration be financed? In order to face the often imbalanced structure of municipal finance, it is essential to understand the basic notion that a municipality's own source revenue, measured as tax effort or tax burden per capita, is a key driver for an efficient and sustainable local government environment.

In terms of public safety, Honduras has seen a recent rise in the perception of insecurity throughout the country, particularly the Northern Corridor. For this study the team analyzed actions undertaken by municipal authorities in terms of budget support towards National Police efforts within their jurisdiction to control crime. The team also reviewed the local safety plans aimed at preventive actions and the improvement of the environment for the safety of the municipality.

In terms of the strategic vision for local economic development, the role of the municipal authorities was also taken into account. The team reviewed current practices in place by the municipalities to improve local businesses and attract investors in order to strengthen the economic base and improve the standard of living for its citizens. The team performed a validation of municipal development strategic plans as well as short-term and medium-term municipal investment plans.

It is important to highlight that the three development areas explored in this assessment- municipal finance options, local safety initiatives, and strategic economic development planning – should not be considered as the only means of development intervention. In order for the recommendations to succeed they must be implemented in a fertile landscape characterized by appropriate legal framework, a transparent and participatory government and local management system, and a dynamic and competitive local socioeconomic fabric. In short, a strong commitment and ownership of development opportunities is necessary from all the players involved.

We appreciate the contributions of all the individuals who have helped us during the course of this study and give special thanks to the municipal authorities and officials involved, who enabled us to complete this report by providing the information requested and honestly stating their positions.

## 1.1. Grounds for the Study

Without a doubt, Honduras is currently facing a bleak picture with regards to its economic growth, characterized primarily by sensitivity to the world economic crisis that has impacted Honduran exports, and by internal factors that have not been overcome with recent public policies. As a result, the country is immersed in an institutional crisis that directly affects the provision of public services via a marked deterioration of public finances. The government has become forced to resort to internal credit to

finance government affairs thus causing the loss of real value of the Lempira and a general detriment of the quality of life, reflected in high unemployment rates and in growing insecurity among the citizens.

Given the circumstances, local governments emerge as the public entities that are closest to citizens, and are obliged to tend to the immediate needs of the public in a multi-faceted manner. In this sense, it is not uncommon to see Honduran municipalities working in sectors outside of their primary competency areas, such as Health, Education, Safety, and others. As such, compliance with their own duties and responsibilities defined by the Municipality Act suffers greatly. These issues not only reflect conflicts between institutional jurisdictions (state and local), but also increase technical and financial pressures on the municipality, which ultimately end up weakening it.

One noticeable element that weakens the institutional capacity of the municipality to efficiently manage itself is the high rate of turnover of local officials and municipal staff. This creates a lack of continuity and institutional memory of the local development administration, which is why the enforcement of the Municipal Office Career (CAM) law is urgently needed. Another urgent need is to improve the capacity of municipal tax administrations to expand the municipal own-revenue collection to fund economic development. Last but not least is the transformation of local authorities from political entities, often filled with party interests, championing them to be agents in charge of “governing” a territory.

In short, Honduras faces a social fabric with little movement that has legal and cultural bases of legitimization, but that has not become the support for development nor the guarantee for accountable public policies. Rather, it is based on political patronage or, in the best case, on social auditing of local authorities, which puts them far away from their responsibilities in the public administration.

On the other hand, municipal finances have been favored by the substantial increase in Central Government transfers and by a scarce growth in the municipalities' own revenues. This situation, however, has not resulted in the consolidation of municipal financial autonomy, but rather in increases in operational expenditures proportional to own revenues and in the need to obtain short-term bank loans and supplier credit to fund capital expenditures.

Within this institutional framework of the local governments, it is necessary to increase financial autonomy and design a strategy to guide efforts to build a more proactive and participatory social fabric in terms of municipal economic and social development in coordination with sector policies.

## **1.2. Purpose**

This study aims to evaluate the financial management capacity of 15 target municipalities to increase own source revenue generation. The study will review successes, constraints, and failures and ultimately identify opportunities to strengthen revenue collection and financial management, to promote economic development and actions aimed at preventing crime and improving public security in the local level.

## **1.3. Goals**

- i. Inform local authorities, the Government of Honduras, and the donor community of the challenges faced by the municipalities with their local revenue systems and their tax administrations in general.
- ii. Provide local governments with alternatives for own-revenue mobilization and reduce the level of dependency on national government transfers.
- iii. Highlight the potential areas of intervention related to municipal finances, economic development, and public safety.

## II. Honduran Municipality Profile

---

### 2.1. Current Legal Framework

Municipalities are governed first by the provisions of the Constitution, second by the Municipality Act<sup>4</sup>, and the reforms originating from the Legislative Branch<sup>5</sup>, as well as by any other sectoral legislations related to the Municipal Governments, which set jurisdictional competences; third, by the manifestation of the regulatory capacity of the Executive Branch that includes, for example, regulations, codes, standards, general provisions and other regulations, such as ministerial level agreements and contracts; and, fourth, by municipal legal instruments, such as ordinances, regulations, internal regulations, manuals, and even the municipal excise regime.

The Municipality Act directs and prohibits any matter related to the municipal regime, setting obligations and legal duties as well as rights. As any other law, it is accepted as indefinite and permanent and will only lose its validity upon repeal, subrogation, and derogation by subsequent laws passed by the National Sovereign Congress. Over time, it has thus been amended a great number of times, becoming difficult to read and interpret.<sup>6</sup>

Historically, this Act has governed the concept of the municipality and the division of the territory into departments and municipalities. The Act also establishes the jurisdiction and organization of the municipality and the community, as well as addresses the issues related to the municipal treasury and the municipal staff.<sup>7</sup> Furthermore, the Municipality Act defines the division of roles in the coordination and cooperation of relationships with other sectorial public institutions, pursuant to the current legal /institutional framework.

In terms of tax authority, only the National Congress has the capacity to set, decree, construe, revise, and derogate laws and, hence, the authority to approve taxes, rights, and any liens on any goods, services, and revenues is vested in this body of the Legislative Branch. Municipalities enforce taxes, but do not have the authority to create or modify the taxes that are regulated by the Municipality Act. This said, the setting of service charges and improvement contributions is within the jurisdiction of municipalities. The respective Municipal Corporation, within its excise regime, annually approves regulations for these utilities, service charges, and fees.

It is important to note that the efforts to promote a new Municipality Act and other related legislations such as the Municipal Office Career Act (CAM) or the Decentralization Act, among others, constitute a historic opportunity to overcome weaknesses in the legal framework, which have not allowed the municipality to gain strength as the level of government that can effectively meet the public service needs of its citizens, clearly defining its competences and efficiently allocating its resources.

### 2.2. Population Dynamics

Based on the forecasts produced by the National Statistics Institute (INE), a marked demographic transition is identified in a set of 23 municipalities, for which it was estimated that, by 2011, at least 51% of its population would inhabit urban centers, demanding more local services. However, the national

---

<sup>4/</sup> Municipality Act, Executive Decree 48 of 1991 and Regulatory Decree of the Agreement 018 of 1993.

<sup>5/</sup> Seven important reforms to the municipal legislative regime are acknowledged: law reform in 1991 by Decree 48-91 and Decree 177-91, the reform promoted in 1995 by Decree 124-95, the reform of 1997 by Decree 171-98, the reform of 2000 by Decree 127-2000 and the reform of January, 2010, by the approval of Decree 143-2009.

<sup>6/</sup> At present, (July, 2012) SEIP and ANHON are advancing the revision and promotion of the Municipality Act, as well as the Decentralization Act and the Municipal Tax Code. However, these bills have not been officially submitted to the Republic Congress.

<sup>7/</sup> As of September, 2012, the CAM Act is still pending enforcement. It was published in the Official Newspaper La Gaceta on July 31, 2010.

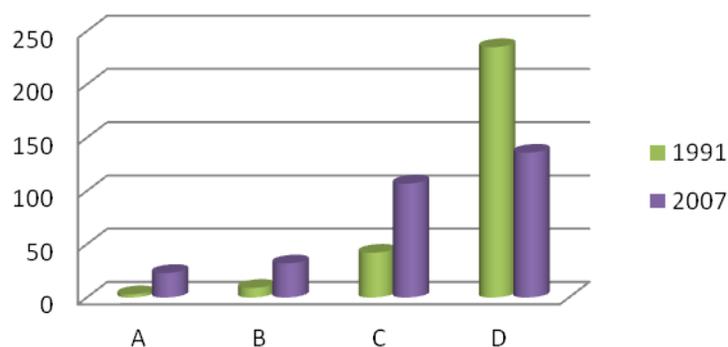
level of recorded urban development is at 34% as a result of the large demographic dispersion in the other municipalities. By 2030, this urban population would be twice that of 2011.<sup>8</sup>

This demographic behavior is consistent with the global one, because for the first time in the country's history, as of 2007, the greater part of the population now lives in cities. This urban development has been rapid, accelerating, and consistent, especially considering that the global proportion of urban population was only 3% in 1800, 13% in 1900 (220 million urban inhabitants) and 30% in 1950 (732 million), reaching 3,200 million in 2005. Pursuant to the United Nations forecasts, it is estimated that 5,000 million individuals would live in cities by 2030 (60% of the population).

### 2.3. Local Institutional Capacity and Information Systems

From an institutional perspective, municipalities in Honduras are classified based on the Municipal Category<sup>9</sup> scores given by the Domestic Affairs and Population Office, which divides them in four categories from "A" to "D". The majority (81.5%) are classified with either a "D – Stagnated" (136) or "C – Slow Development" (107) categorization; while the 55 municipalities classified with "B – Developing" and "A – Developed" represent only 18.5%.

**Chart 1. Honduras: Municipal Classification 1991 and 2007**



**Source:** Developed based on Municipal classification studies. SEIP

Even though this municipal classification historical chart shows a relative improvement in Honduran municipalities, the capacity to shoulder a real decentralization process is still fragile, since, until now, the municipal strengthening framework has been focused on increasing access to public services, increasing transfers, and promoting financial administration systems aimed at transparency, instead of improving the capacity to promote a planned local development framework that ensures public safety and financing development management with municipal own revenues based on economic potential.

The database used to categorize municipalities is based in the Municipal Information National System (SINIMUN) of the Domestic Affairs and Population Office (SEIP), which is an available tool, but not one that is timely or uniform.<sup>10</sup> Currently, there is no trustworthy and timely municipal information system,

<sup>8/</sup> For example, for 2012, it is estimated that the 24 Municipalities that would exceed 50 thousand inhabitants are: Central District, San Pedro Sula, Choloma, El Progreso, La Ceiba, Danlí, Choluteca, Villanueva, Puerto Cortés, Comayagua, Juticalpa, Catacamas, Olanchito, Siguatepeque, Tela, Yoro, Santa Cruz de Yojoa, Tocoa, Trujillo, La Lima, Nacaome, Intibucá, Santa Rosa de Copán and Marcovia.

<sup>9/</sup> This classification was set in 2007, by means of the indicator known as Municipal Development Index (IDM), which consist of a set of municipal indicators (Human Development Index, Development Level, Energy Index, Telephone Availability and population having water supply through a pipeline) and representative indicators of the municipality institutional performance (Financial Autonomy, Revenue per capita, Saving Efforts and Investment Achievements).

<sup>10/</sup> Municipalities revenue reports annually delivered to SEIP, recorded in SINIMUN, lack financial truth, as they do not necessarily match the budget statement municipal records and in many cases figures related to municipal revenues and expenditures do not match either, or these figures and those reported by the Central Government (for example: Transfers). On the other hand, history SINIMUN series are not timely recorded. For example, for 2002 there are still 9 municipalities

used as a single source of information. There are differences among the revenue reports the municipalities deliver separately, to the High Court of Auditors (TSC), to the SEIP and to the Integrated Municipal Administration System (SAMII), which has been developed by the Ministry of Finance Office (SEFIN) as a pilot project in 40 municipalities of the country.

## 2.4. Municipal Finances<sup>11</sup>

### 2.4.1. Municipal Autonomy

It is accurate to say after 20 years of the establishment of the Municipality Act, the attainment of municipal autonomy, defined as the capacity of the municipalities to finance themselves, is still one of the pending major issues of local development. The historical reality shows Honduras as a centralized State, where the municipal level only collects as its own revenue an average of 8.36% (2002 to 2011) of the public sector total, compared to levels of 20% and 40% in western countries and, executes only 12.48% of the total government expenditures for the same period, while the international average reaches approximately 35%. Moreover, this shows that municipalities cannot cover municipal commitments with their own revenues and need external sources in order to do that, either as transfers from the Central Government or as the issuance of debt – a trend that is increasingly marked in the analyzed period.

An extreme measure of municipal autonomy, regardless whether or not municipalities meet the operating expenditure limits set by the Municipality Act, would be the ratio of own source revenues to current expenditures, which would indicate whether the municipalities could at least cover own operations. This ratio reached an average of 105% during 2002 to 2010, which shows that the municipalities generate enough revenues to cover their operating expenditures, but that they do not generate revenues to finance investment and the provision of public services. As a result, municipalities have not surpassed the threshold of real local autonomy due to their financial dependency on external sources for development responsibilities and, in particular, on revenues from the Central Government Transfers.

Central Government transfers cover, on average, 47% of capital expenditures, and 36% is covered through the issuance of debt. Both sources are external to the municipality, and if efficiently managed, effective tax decentralization could be promoted. The important factor with the transfer revenues is to ensure the regularity of transfers and to foster a regulated mechanism to access municipal credit through a local financing window.

### 2.4.2. Current Revenues

On the national level, the municipal tax load as a whole reaffirms the poor local tax collection (1.36% of the average GDP for 2002-2011) compared to the collections by central government (15.91%). This is also a characteristic of the centralization phenomena, which highlights the image of a municipality with minimum capacity and limited autonomy.

Within this context, local governments should exercise their tax authority with a proactive and dynamic collection approach. A shift in this direction would signify institutional strength and leadership of its authorities. In fact, there is a stark difference between leading an institution that essentially handles expenditures based on revenues received by transfers; and leading a government that, in order to spend, deploys a significant tax effort and seeks for alternatives to leverage the investment needed with its own investment effort, knowing that alternatives imply a high political cost.

---

that have not delivered their budget statement; for 2007, there are 35 missing; for 2008, there are 36 missing; for 2009, there are 95 missing; and for 2010, 3 municipalities have not delivered them. It is important to highlight that for 2011, there are still no consolidated data and hence, figures were estimated based on the historical background.

<sup>11/</sup> Statistical details and indicators mentioned in this section are based on the historical series of recorded revenue reports in SINIMUN from 2002 to 2010. Data for 2011 are based on the revenue reports directly given by the municipalities.

In terms of the structure of municipal taxes, fees, and other revenues in the 298 municipalities, the most significant tax is the Industry, Commerce and Services Tax (ICS), representing on average 30% of the municipal tax revenues (2002-2011). Second in importance is the Property Tax, even though its share on average is only 15%. The collection of this tax was nearly stagnant for the analyzed period. The same applied to the Personal Income Tax, which hardly represented 6% of tax revenues from 2002 to 2011. Municipal service user charges and fees represent an average of 44% of municipal revenues and are concentrated in category “A” municipalities.

**Chart 2. Honduras: Composition of Municipal Current Revenues  
Average 2002 - 2011**



Source: Developed based on SINIMUN, SEFIN and BCH data

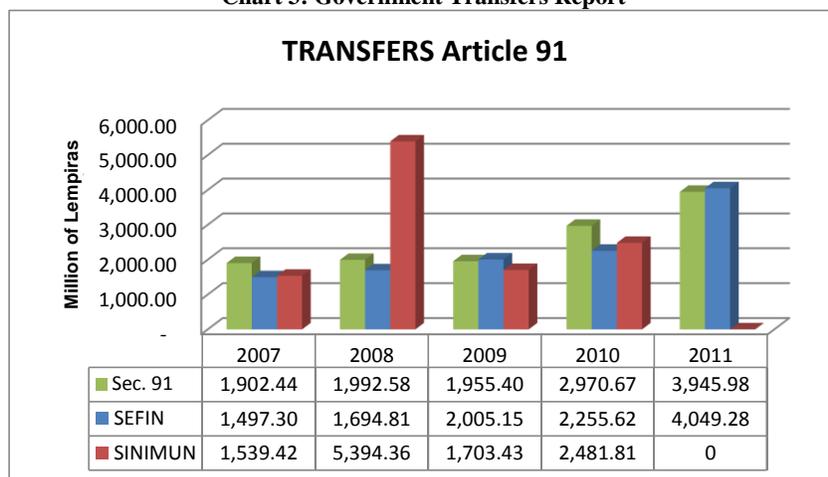
**2.4.3. Transfers**

The municipal financing system in Honduras is characterized by limited success in own source revenue production and a predominance of central government transfers. Unfortunately, the magnitude of these transfers often causes a deterring effect on municipal collection dynamics in the region. Instead of focusing on ways to increase own source revenues, municipalities rely primarily on government transfers to guide expenditures. In this regard, transferred revenues, in addition to being an opportunity to bolster the exercise of municipal powers, carry a possible threat, related to the atrophy of tax management capacities and tools.

Notwithstanding the regulatory framework<sup>12</sup>, the actual flow of revenues as transfers to municipalities has been irregular, not only in terms of the timing of disbursement, but also in terms of the amounts effectively allocated by SEFIN to the municipalities. This has directly impacted the financial programming of the municipal administration and the effective financing of investments pursuant to the Municipal Investment Plan. Chart 3 shows the amount of transfers Local Government should get pursuant to the revenue provisions of Article 91 of the Municipality Act.

<sup>12/</sup> Section 91 of the Municipality Act represents a legal framework that enforces the Honduran government transfer system. Until 2009, the Central Government had the obligation to transfer its own annual tax revenues, around 5% of quarterly allocations, to Municipal Governments; after the reform of the Municipality Act, passed in 2010 by Decree 143 of the year 2009, the transfer percentage changed from 7% in 2010, to 8% in 2011, 9% in 2012, 10% in 2013 and finally 11% as of 2014.

**Chart 3: Government Transfers Report**



**Source:** Self developed based on SEFIN data and SINIMUN revenue reports until 2010, for 2011 the information has not been fully recorded yet.

**Note:** The calculation of Transfers, pursuant to Section 91, was performed in terms of Tax Revenues collected by the Central Government. For 2007, 2008 and 2009, the calculation was based on 5%, for 2010 on 7% and 2011 based on 8%.

As can be noted, there is no pattern in terms of transfer revenue allocation. For example, in 2007, the State's central administration did not meet the provisions of Article 91, which represented Lps. 1,902.44 million. The difference between the SEFIN and SINIMUN reports can be explained with the discretionary transfers the municipality sometimes received and recorded. This situation is exacerbated if we take into account that in 2012 at least 35 municipalities did not submit their revenue reports to the SEIP.

#### 2.4.4. Municipal Debt

Government policy towards debt has several parameters aimed at managing the global levels of debt of public sector entities. The following applies to external borrowing:

Parameters
Central Government guarantees, sureties, and collaterals for public debt shall not exceed 5% of budgeted current revenues.
New external funding shall be contracted in a weighted content in that the grant element is less than 35% and these shall require the authorization of the Secretary of State of the Finance Department. <sup>13</sup>
If commercial resources are contracted, the global limit of US\$100 million shall not be exceeded, and the 35% criteria of the weighted grant element shall be respected for the whole external credit portfolio.
Infrastructure projects requiring a significant revenue investment shall be performed with public debt without exceeding the sustainability indicator ceilings (15% of the GDP and 42% of goods and services exports) or with financial arrangements involving the private sector, without a State guarantee.

In terms of internal borrowing, specifically as related to municipalities, it is stated that Municipal Corporations may commit up to 30% of the transferred funds for the payment of loans, when financing an investment that is recoverable and that debt should not exceed the government term, otherwise the National Congress must approve it.<sup>14</sup> This situation limits financial planning of municipal development projects to only one 4 year period, which makes the conducting of long-term strategic planning very difficult.

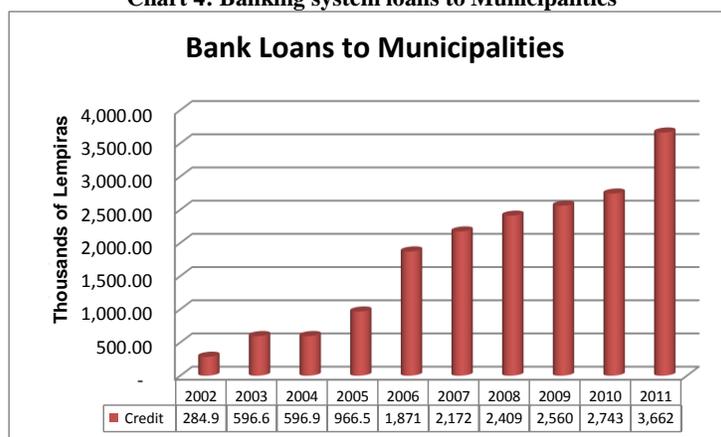
However, based on the reports of the National Banking and Insurance Commission, financial institutions have reported a growing trend during 2002 to 2011 in the allocation of Bank credits to Municipal Governments, which funding has had the guarantee or collateral of the central government and which

<sup>13/</sup> Section 41, budget provisions 2012

<sup>14/</sup> Section 129, budget provisions 2012

interest rates were mostly those applied to consumer credit. It is important to highlight that there is no information on the terms of credit to suppliers.

**Chart 4: Banking system loans to Municipalities**



Source: Self developed based on CNBC reports.

## 2.5. Municipal Economic Development

From 2000 onwards, the development and implementation of Municipal Strategic Plans have been promoted on a national level and, more recently, have expanded to include Land Use Planning at the Municipal level. The main idea was to help municipal authorities and other main actors within an economic region develop competitive advantages in order to jointly undertake initiatives aimed at economic development of the region.

In this sense, the local planning framework was understood as a public-private partnership process between local governments, civil society organizations, and the private sector, with the purpose of improving the quality of life of the population by creating more and better employment and by revitalizing the economy within a defined territory, within the framework of national and local policies.

However, this process has required the consolidation of local institutional development management, which has not been fully defined, and has also had to be coupled with a process for training and education to strengthen the capacity of the population and facilitate a favorable business environment to attract investment and create new businesses, among others. Also, it has had to involve community development and social, environmental, institutional, and other local initiatives directed to the general welfare of the population.

There exist two types of planning documents, generated with various techniques and tools and sponsored by various public, private, or multilateral or bilateral funding entities, unfortunately the local authorities have only in very few cases made the corresponding appropriation and used them as a development management tool or a guide to strategic actions to maximize the use of available resources and to define the main investments to be made.

Notwithstanding the lack of use of a development planning tool, the Northern Corridor is still the fastest growing area, not only as a result of the industrial corridor<sup>15</sup>/maritime potential, but also as a result of the quality of land that has enabled agricultural development. Among its most representative production are banana, sugar cane, plantain, African palm, citric fruits, grass and basic grains and the potential for tourism, reinforced with beaches, ecological reserves, rainforest areas that reach the sea, mangrove forests, lagoons, rivers, channels and reef rocks, among others. In addition, this area has the best public infrastructure in terms of a road network and the provision of public services, including

<sup>15/</sup> For example, the Valle de Sula Region has more than 80% of the manufacturing and textile industries of the country.

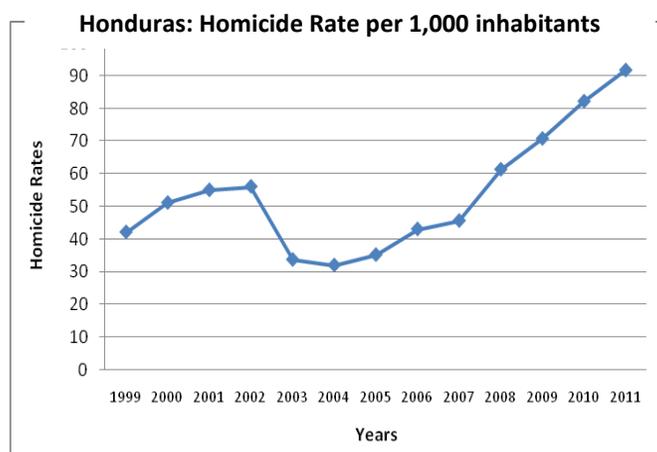
international airports. More than 55% of Honduras' Gross Domestic Product is generated in this region, accounting for over 40% of Honduran exports.

Another aspect to consider in terms of the local economic development dynamics is the access to additional financing for strategic public investment in local development. The aim is to promote a regulated financial system and accessible credit, recoverable through fees, and the modernization of municipal management. This focus is the foundation of local economic development and its relation to fiscal decentralization. Likewise, the recent changes in law with respect to the relationships between the regional and external environment, there is a territorial advantage in combining the efforts of local governments for endogenous economic development, including central public investment and alliances with private sector.

## 2.6. Local Public Safety

In the last few years, public violence and the climate of a lack of safety have exceeded the acceptable standards for Honduran citizens. In this regard, according to UNODC<sup>16</sup> data, the homicide rate per one hundred thousand inhabitants went from 42.1 in 1999, to 91.6 in 2011 – an increase of 117.58%, which implies a steep deterioration of the country's safety situation. Police records show that more than half of the homicides are labeled as “motivation unknown”, but that an increasing number of homicides attributed to hit men have started to be recorded. This, within the Honduran context, is an indication of organized crime operating in the country.

Chart 5: Homicide rates per 1,000 inhabitants



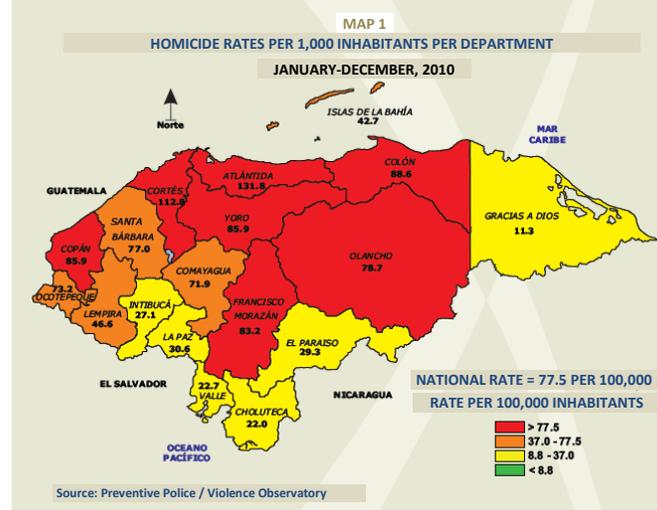
Source: Developed based on UNODC data.

From a regional point of view, high variability between several of the country's departments can be observed, and homicides are concentrated in the Western area, in the Northern and Central corridors, departments, considered as areas with growing economies, attracting migrant population, and/or ones that, due to their border and coastal location, are a route for organized crime.<sup>17</sup>

<sup>16/</sup> United Nations Office of Drug and Crime, <http://www.unodc.org/unodc/en/data-and-analysis/homicide.html>

<sup>17/</sup> IUDPS – UNAH Violence Observatory. 2010. Edition No. 20, March, 2011 Honduras

Chart 6: Homicide Rates map per 1,000 inhabitants in the region



Source: From IUDPS-UNAH Violence Observatory 20<sup>th</sup> Edition. 2010.

Moreover, the four Departments with the highest reported rates are Islas de la Bahía (2,399) and Atlántida (1,292), the ones with the highest rates of the country, followed by Francisco Morazán (922) and Cortés (812), where the most important populated centers of the country are located.<sup>18</sup>

Leaving aside historical violence and crime rates in the country, it is widely known that the causes are based in multiple factors, but also that they are directly linked to the economic crisis, which creates high levels of poverty and unemployment and few opportunities, mainly for youths; and a visible institutional weakness to combat crime and application of justice, among others.

Within the institutional framework, there is a need of direct involvement by local governments in actions that historically were the responsibility of the Central Government and, in particular, of the Security Department, through the Preventive Police, and, to a certain extent, of the Defense Department, through the Army and the justice operators derived from the Judicial Branch and the General Attorney's office.<sup>19</sup> This is the reason for the creation of "Safer Municipalities" program, which actively involves municipalities in the design, execution, and evaluation of public safety policies; protected by the "Honduras Comprehensive Policy for Citizen Coexistence and Safety 2011-2012", presented (September 2011) as a set of policies, strategies, and programs to face the country's security problem over the next 10 years.

In public policy, the State requires that local authority management identify the immediate causes of violence and define intervention policies appropriate to each specific situation, with emphasis on preventive measures and attention to vulnerable groups and not to corrective measures, which are the exclusive jurisdiction of the Security Department and justice officials.

The above implies a paradigm shift, in which the State has shifted its view of public safety as a social good, and utilizes a management model, in which environmental surveillance and punishment to the citizen who breaks the law prevails. Great progress has been made from an absent citizenship that does not trust the policies of the State, towards a more inclusive policy, supported by local authorities, who are close to the citizens and hence in a better position to provide this service, which puts prevention before control and which does not focus on crime, but gives attention to its causes.

<sup>18/</sup> All the information used in the analysis of the report geographical distribution other than homicides are from IUDPS –UNAH Violence Observatory. 2010. Edition No. 20, March, 2011 Honduras

<sup>19/</sup> It is appropriate to clarify that within the attributions the Law allocate to the Municipalities, the security sector is not included; however, the provision of local public services is directed and, by means of an agreement, the services provided by the State or autonomous institutions, when related to the municipality.

Currently, there are several Local Public Security initiatives such as:-*Proyecto de Paz y Convivencia para la Región del Valle de Sula (IDB 1123-SF-HO)*[Peace and Coexistence for Valle de Sula Region Project], *La Experiencia de Puerto Cortes, Fortalecimiento de la Seguridad Ciudadana en el Ámbito Local (UNDP)* [The experience of Puerto Cortes, Strengthening Public Security in Local Environment], *Programa de Fortalecimiento de la Gobernabilidad Democrática (AMHON)* [Democratic Government Strengthening Program], *Programa de Apoyo al Sector Seguridad (PASS- EU)* [Security Sector Support Program], *El Modelo Koban* <sup>20</sup>(JICA) [Koban Model] and *Programa de Apoyo a la Implementación de la Política Integral de Convivencia y Seguridad Ciudadana (HO-L1063)* [Support Program to the Implementation of a Comprehensive Citizen Coexistence and Safety], to mention a few. See **Annex C** “Recent Initiatives in Local Public Safety”.

---

<sup>20/</sup> **KOBAN** summarizes the spirit of the model: **Ko**: Exchange; **Ban**: Surveillance

### III. Municipality Selection and Methodology

The methodological framework that guided this research is presented in this section. Ultimately, the selection criteria allowed for a shortlisting of 25 municipalities and a final selection of 15 for field visits and in-depth study. The selected municipalities were those which had the highest potential for increasing the average revenues derived from economic development opportunities, while simultaneously showing increasing homicide rates. For a map of the selected municipalities, see **Annex A**.

It is important to mention that selected municipalities included not only category “A” municipalities, but also “B” and “C” municipalities. Meanwhile, “D” municipalities were not taken into consideration, as the type of assistance required for these is beyond scope of this study and require bold assessments and proposals with strategic vision that would help determine alternatives for the sustainability of each municipality.

This evaluation was performed in two phases: **Phase 1: Municipality Identification and Selection** comprised a technical study that analyzed publicly available data to identify the 25 pre-selected municipalities, of which 15 were eventually selected for a more detailed field assessment; and **Phase 2: Final Selection and Rationalization** comprised the identification of 18 municipalities as a basis for the coordination of field visits and confirmation of availability with 15 for a detailed assessment field work.

#### 3.1. Phase I: Municipality Selection and Identification

Two groups of variables were established as part of those aspects to be analyzed for the identification of the municipalities to be studied: a) municipality-specific variables; and b) cross-cutting variables. Municipality-specific variables were divided into the following groups: Municipal Financial Indicators, Municipal Indicators, and Public Safety Indicators. The second group of variables – cross-cutting variables – included non-quantitative criteria common to the municipalities and related to accessibility characteristics, municipal categorization, target department coverage, the incorporation of gender aspects, etc.

##### 3.1.1. Municipality-Specific Variables

This group of variables sought to quantify the financial and economic potential of the municipalities; exploring areas to increase own source revenue, as well as the inherent characteristics of the municipalities that reported high levels of insecurity. This group of indicators is detailed below:

- a. **Municipal Financial Indicators:** This group of variables describes the financial capacity of the municipality in 2010. Here, the higher the indicator, the better the capacity of the municipality to leverage its own revenues. **Total Weighted Value = 40%.**

Indicator	Explanation
1. <b>Financial Autonomy Ratio:</b>	This indicator relates the effort made in obtaining financial resources by municipal authorities, through the tax regime, specifically through the application of taxes and fees for services and the sale of municipal assets, to the total income collected by the municipalities, within a set period of time, in this case 2010.
2. <b>Tax Burden:</b>	This revenue per capita ratio results from dividing municipal income by its population. In other words, it measures the contribution that each inhabitant provides to the financing of the municipality.
3. <b>Current Savings or Deficit</b>	This indicator of savings efforts relates the current revenue raised by the municipality to its current expenditures, where current expenditures include operating expenditures and transfers to various social groups.
4. <b>Investment Effort</b>	This indicator shows the degree of responsibility that the municipalities under study have had when allocating 75% of the total amount of the government transfers for the financing of their investment projects.

- b. **Municipal Indicators:** This group of variables was used to quantify the economic potential of the municipalities of the 6 departments of the Northern Corridor, with the understanding that the greater the value of the indicator, the better the economic base of the municipality, providing an opportunity to improve own-revenue collections. **Total Weighted Value = 30%**

Indicator	Explanation
1. <b>Degree of Urbanization: 10%</b>	This indicator is the percentage of urban population of each municipality included in the region, forecasted to 2010. As the more dispersed the population is, the less it has access to public services. This information comes from projections of the Population and Housing Census from 2001.
2. <b>Municipal Economic Activity: 30%</b>	This weighted criterion of economic activity was created by taking into account the industrialization, financial activity, and commercial activity levels and the potential for tourist activities in each municipality, assuming these are the basic grounds for local economic development.
3. <b>Number of human settlements: 10%</b>	According to the guidelines of the Country Vision and Nation Plan, the SEPLAN established human settlements with actual urban conditions for their inhabitants. In this respect, this indicator identifies the number of these population centers in the analyzed municipalities.
4. <b>Human Development Index – HDI: 20%</b>	This indicator, published in the 2006 report of the UNDP, is a composite index that contains three variables: life expectancy at birth, educational achievement (adult literacy and a combined index of primary, secondary and higher education enrollment), and the actual gross domestic product (GPD) per capita in adjusted dollars.
5. <b>Energy Coverage: 10%</b>	According to the SEIP's 2007 Municipal Categorization Report, this indicator was developed with information from the ENEE as the number of users divided by the number of houses in the municipality as reported in 2006.
6. <b>HONDUTEL'S telephone lines per 1000 inhabitants: 10%</b>	This telephone availability indicator, per 1000 inhabitants, is computed with information from two variables – the number of telephones in service provided by HONDUTEL in each municipality in December 2006 and the municipal population forecast from 2006, provided by the INE.
7. <b>Water Coverage: 10%</b>	This water service indicator shows the percentage of houses in each municipality with pipe water and is part of the 2007 SEIP'S Municipal Categorization Report.

- c. **Public Safety Indicators:** These sets of indicators are inversely proportional, since the higher the index value, the lower the level of public safety. The higher the indicator, the higher the effort to be taken upon by the municipality to achieve public safety. **Total Weighted Value = 30%**

Indicator	Explanation
1. <b>Homicide Rate: 50%</b>	This indicator is the ratio of the total number of homicides in 2010 to the total population expressed in multiples of 100,000 inhabitants, reported at the municipal level.
2. <b>Number of Reported Cases of Homicide: 25%</b>	In this case, the number of homicides in the municipality in 2010, which resulted in an intentional death, non-intentional death, or self-inflicted death, are taken into account.
3. <b>Number of Deaths Due to External Causes: 25%</b>	In this case, the number of suicides, traffic accident deaths, and non-intentional deaths, reported by the Preemptive Police and the Violence Watch Observatory in 2011, are taken into account.

See **Annex B** for detailed tables with the selection indicators listed in this section.

### 3.1.2. Cross-Cutting Variables

These groups of variables seek to harmonize the distribution of municipalities, using criteria common to the municipalities and aiming to ensure territorial accessibility, departmental and category coverage for the study. In addition, gender coverage among municipal leadership and staff was also taken into consideration.

### 3.2. Phase II: Final Selection and Rationalization

In coordination with USAID, a final selection of 18 municipalities was chosen for the in-depth field study out of the 25 pre-selected based on the selection criteria and methodology.

The municipalities that show greater performance in the variables employed in the integrated analysis are those categorized as type “A”, although the 15 municipalities ultimately selected for the study included not only type “A” municipalities, but also type “B” and “C” municipalities. “D” municipalities were not included, since it was considered that the type of assistance they require was beyond scope of this study.

CATEGORY/DEPARTMENT	A	B	C	TOTAL
ATLÁNTIDA	La Ceiba & Tela		El Provenir	3
COLÓN	Tocoa	Trujillo	Sabá	3
COPÁN	Santa Rosa de Copán		La Unión	2
CORTÉS	Puerto Cortés & Choloma	Potrerosillos		3
SANTA BÁRBARA		Las Vegas & Quimistán		2
YORO		Santa Rita	Yorito	2
TOTAL	6	5	4	15

For a period of three weeks, the team completed field visits to 15 municipalities<sup>21</sup> and through participatory research, conducted workshops and obtained first-hand information from local authorities and municipal officials.

---

<sup>21</sup> It is important to highlight that, during the visits, the workshop with the Yoro municipality could not be completed and was therefore replaced with a field visit to the Sabá municipality.

## IV. Field Visits Results

---

### 4.1. General Observations

Both stages of the assessment showed very real differences between the municipalities. Besides the expected differences in target criteria such as area, population, economic base, location, and other geographical characteristics, each municipality has its own history, its “personality,” and its institutional culture. At the same time, however, there are many similarities that allowed the development not only of a detailed set of findings, but also of general recommendations. The details of these results can be seen in **Annex D**, which contains 15 detailed profiles of the analyzed municipalities.

In the three municipal categories (A, B, and C), two types of municipalities were observed: those willing to enter or deepen the change process to generate improvements in the three areas of the study by assuming a proactive attitude; and those that acknowledge the need for change, but assume a passive attitude. There were also two groups of municipalities with respect to **actual improvement possibilities for revenue and local economic development**: those that had actual potential and those that had good intentions, but for which population size and economic base limitations made it very difficult to achieve progress.

#### 4.1.1. On Local Finances

The Municipality Act and its regulations control the majority of the aspects related to the mobilization of municipal revenues. These sources of income are divided into **Current Income**, which are classified as Tax Income and Non Tax income; and **Capital Income**, which includes, besides loans, a part of the transfers from the Central Government. It was observed that, in the current legislative framework, there were design problems associated with each of the sources of local income. These problems call for national action to modernize the legal basis and facilitate the tax administration of each municipality and the preparation of a permanent training program on this subject.

A clear institutional weakness in tax administration was also identified, not only in the lack of flexibility and management capacity in the collection of taxes as such, but also in the missing link between the cost of providing municipal services and the rates and tariffs established in the municipality fee regime. A weakness in the registration and update of the municipal taxpayers was evident. This weakness must be resolved comprehensively, not only locally, which should be done immediately, but also in coordination with the taxpayer databases and the citizen registry databases at national level.

#### **Main findings related to finance in the 15 municipalities visited:**

- There are deficiencies in the registration of the taxpayer base and in the services provided by the municipality. There is underreporting and lack of systematic plans for modernization.
- Updates to the registration of the taxpayer base are made by default, reactively, when the taxpayer physically goes to the municipality when in need of assistance. The municipalities do not study the potential tax base and its relationship to the actual base.
- Few municipalities cooperate with and/or get support from the records kept by the chambers of industry or commerce or the DEI records.
- Municipalities are unable or do not estimate the real cost of each service, which does not allow them to know their corresponding levels of recovery and subsidy. They do not make calculations or propose charge levels.
- The municipalities have a tendency to neglect quality control provisions when they outsource services. Given the attitude observed, the municipalities that contracted the services of Corporation TX for the collection of delinquent taxes are in danger of assuming a reactive attitude in the future and may place the de facto responsibility for defining tax administration policies and procedures with the contracted company.

#### 4.1.2. On Local Development

The institutional effort to implement a planned local development framework, which is manifested in the various **planning and development management tools**, should be recognized. To this regard, all the

visited municipalities have, at a minimum, one Municipal Development Strategic Plan and other instruments such as Territorial Order Plans, Natural Disaster and Contingency Plans, among others. However, it is the view of the authors that these plans often do not align with the municipal budgets or the execution of the Municipal Investment Plans. It becomes obvious that the preparation of the Territorial Order Plan shows the short-term vision of the local authorities and the strategic plans are, in turn and in the best case, documents used in the management of revenues external to the municipality, be they donations or credit applications.

The Mayor's Office not only represents municipal leadership, but also is the local authority with a global vision on the potential of the municipality, reflecting, in his/her thought, the direction of the actions to be taken to spur economic growth. Notwithstanding, save for a few exceptions, this vision is often not transmitted to the municipality's staff and even less to the social fabric of the municipality. As such, the strategic plans do not end up being a useful tool that provides direction to the development actions of the municipality.

In addition, there is evidence of a poor relationship with the private sector among the municipalities visited. Private sector coordination typically assists local governments in areas such as: the diversification of the industrial production, to provide large investments, to generate sources of employment, and to attract foreign investment and technology. Out of the 15 municipalities visited, it is evidently absent from the local government.

#### **Main Economic Development findings in the 15 municipalities visited:**

- There is poor ownership of the planning and development management tools that the municipalities have. Most of them are outdated and the several tools in existence do not relate to a master plan that serves as the main instrument, whether for management or for specific sectoral plans.
- There is weak coordination between the municipality structures with the basic structures/territorial and economic agents that are present in the municipalities (private companies, banks, producer associations, cooperatives, NGOs).
- The municipalities allocate limited human and financial resources to development planning and management in a systematic manner so as to coordinate the municipality vision for development with the country's vision.
- There is no window for the financing of development that provides long-term revenues under investment recovery schemes and that should be linked to the involvement of the private sector and civil society organizations.

#### **4.1.3. On Public Safety**

It was obvious during the field visits that the perception regarding citizen safety was low in all municipalities visited. However, it can be inferred that the degree of insecurity is directly proportional to the size of the population and the economic activity of the municipality. It is also important to mention that the violence typology varies from place to place, which is why any attention to this public service requires a situational analysis specific to each place and resulting in actions specific to each identified typology.

On the other hand, a local social network focused on public safety policies was identified in the Northern Corridor of the country, one that had generated social awareness on the institutional role of the municipality in providing this public service to its citizens. It focused on the generation of preventive measures, social care for vulnerable groups, especially ones including youth and women at risk, and had established coordination with judicial officers at a national level.

In addition, the existence of some Local Public Safety plans, due to the efforts of local authorities supported by related programs, is noted. Some of these have exhibited not only the consolidation in social structures, but also the pertinent actions to prevent crime. The case of the Municipality of Puerto Cortés is a successful experience that should be emulated. Notwithstanding, with the application of the newly introduced **National Public Safety Tax**, the financing of said local plans is jeopardized as local

contribution has now become eliminated and, until recently, there has been no definition of a financing scheme for the different local safety plans.

#### An example from Puerto Cortés

In 2006, the municipal authorities of Puerto Cortés decided to face the problems of insecurity by their own means, creating their own system of public safety management called “Puerto Cortés Public Safety System” (SISE), which called for interinstitutional and multisector help in order to focus on violence and crime. A novel element in the system was its openness to citizen involvement, already proven with the interventions in the Valle de Sula municipalities, but enriched by an interesting program of solidarity contributions from the private sector under the principle of “shared responsibility”.

This local safety management system, known as the “Puerto Cortés model” defined its goals as, (i) coordinate the State actions in public safety in the territory, (ii) promote community involvement, and (iii) guarantee social and citizen peace. Its institutional architecture has been adjusted to the geographical and administrative organization of the territory: it has a Public Safety Community Commission (COSEC), covering the whole municipality with its corresponding Security Commissioners Office; Public Safety Regional Commissions (COZOSEC); Public Safety Neighborhood Commissions (COBASEC); and Public Safety Rural Commissions (CORUSEC).

The revenues that finance the policies prepared and executed by the COSEC and administered by a trust fund originated, until December 2011, from the collection of a **municipal safety tax** that was charged to business and private persons according to the size of their economic activities, in addition to other revenues and contributions from member entities, donations, international cooperation resources and other contributions from natural or legal persons.

At the same time, the SISEC designed and organized a unified center for the reception of requests for public safety services and emergencies, including a dispatch and monitoring service for the most strategic sites in the city with an electronic surveillance service that has been strengthened in the past year with the addition of patrol cars, ambulances, and firefighting trucks, with GPS.

For more information in recent local public safety initiatives, see **Annex C**.

## 4.2. Information Systems

The data used for this study included official data from the Secretary of the Interior through the National Municipal Information System (SINIMUN) – a system<sup>22</sup> aimed at providing up to date, reliable, accessible, and timely information. The information provided by these systems can be leveraged by the municipal sector to improve the quality of their decisions, priorities, allocations, municipal performance monitoring, and the strengthening of the decentralization process.

Currently, the SEIP has not made SINIMUN available to the public<sup>23</sup>, but a database containing the fiscal revenue reports of the municipalities, is available. On the other hand, and notwithstanding the record of said database, the database lacks statistical confidence, since it is not required that the mistakes in the original reports prepared by the municipal officials be corrected. This also brings up a need to implement training programs so that the guidelines of the Program Budget Preparation Manuals and the budget accounting and account rendition manual of the TSC are followed. It is also important that the Department of Information and Statistics has staff knowledgeable in public finance so that it can control the quality of the municipal financial information.

Besides what is described above, the SINIMUN incorporates data from the Population and Housing Census in 2001 at the municipal level, and so users have access to the available local information. The database also has data on energy provided by the Empresa Nacional de Energía Eléctrica, on the penetration of telephones provided by HONDUTEL, and on water service by the SANAA, but these are not updated.<sup>24</sup>

<sup>22/</sup> In the year 2002 the Department of Information and Statistics, reporting to the Local Strengthening General office of the SEIP was created with the purpose of managing municipal statistical information and generating indicators that serve as a support tool for the planning of municipal management and local development.

<sup>23/</sup> Eventually, the SEIP enabled a website for access to information which is currently offline. <http://www.seip.gob.hn/sinimun/>

<sup>24/</sup> The rent reports of the municipalities that are annually delivered to the SEIP, recorded in the SINIMUM, lack financial veracity, since they do not necessarily match the municipal records of budget liquidation and in many occasions the figures

In addition, the Ministry of Finance, through the Budget Law, is promoting the Municipal Finance Administration Integrated System (SAMI), which is an integrated system on the use of public municipal resources, and which is to be used as a comprehensive financial/budget management tool that will improve and support local and national public finance management and administration. This tool enables the formulation and execution of the budget, including supplements, as well as the administration of the revenues and expenditures of the municipality, payments, accounting and the presentation of financial statements and revenue reports, the control of internal and external debt, and the preparation of budget evaluations of the governing institutions.

A main goal of SAMI is fiscal strengthening at the local level through obtaining pertinent information for the improvement of fiscal management, whether it is through the quality of the generated information or through the widening and support of fiscal coercion measures on taxpayers to increase revenue and fight municipal tax evasion. As a technological concept, SAMI is an integrated system of Financial Administration, in which Budget, Accounting, Treasury, and Public Credit transactions are recorded and in which these transactions originate from the administrative management of the various departments of the institution, guaranteeing only one instance of data input. These administrative units include: the administration of the various public services, purchase requests, human resources, warehouse control, inventory, control of municipal public investment, control of rotational funds or cash, control of the different taxes and tariffs managed by the different municipalities, control of taxpayers current accounts, collection management, etc. The real time access to municipal information is equally of utmost importance for public institutions, such as the Department of the Interior and Population, the Property Institute (IP), the Public Information Access Institute (IAIP), the National Congress, and especially the TSC High Court of Auditors, so that they can comply with their responsibilities as per the law in a timely manner. SEFIN has submitted a SAMI implementation report in 10 pilot municipalities in 2011, and they are scheduled to roll out implementation to at least 60 municipalities by the end of 2013.<sup>25</sup>

In conclusion, there is a need to establish a reliable and timely municipal information system, using as a single source the information of the reports generated by the financial administration system of the municipalities, which now are based on the revenue reports of the municipalities that are delivered or must be delivered, separately, to the High Court of Auditors (TSC) and to the SEIP itself. In this respect, the Integral Municipal Administration System (SAMI) that is being promoted by SEFIN can be the mechanism of timely information.

---

between income and municipal expenditures do not match, or these and those reported by the Central Government do not match as well (for example, Transferences). On the other hand, the historical series of the SINIMUN are not timely registered; specially those of the year 2002 were there are still 9 municipalities that failed to deliver their budget liquidation, in 2007 the number is 35, in 2008, 36, in 2009, 95 and in 2010, 3 municipalities. It is important to highlight, that there are no consolidated data for 2011 and as a result figures were estimated based on historical behavior.

<sup>25</sup>/ <http://www.sefin.gob.hn/wp-content/uploads/SAMI/index.html>

## V. Assessment Results

The budget figures for 2011 delivered by the municipalities to the High Court of Auditors were a key part of the on-the-ground data validation during the field visits. They were reviewed by the assessment team with the objective of verifying the performance of the municipal tax administration for this period and, hence, the **financial sustainability of each municipality** under the study. In this sense, the following indicators Financial Autonomy Ratio (FA), Tax Burden (TB), Savings Effort or Current Account Deficit (SE), Investment Effort (IE), and Capital Expenditure Percentage were compared.

Below is an analysis of the performance of each indicator in 2011 by municipality. The following table shows the resulting indicators:

Department	Municipalities	Financial Autonomy	Tax Burden	Current Saving/ Deficit	Investment Effort Index	Capital Revenues
Atlántida	La Ceiba	75.33	890.31	1.52	9.82	36%
	Tela	74.77	672.12	0.81	0.97	58%
	El Porvenir	44.39	209.60	1.09	1.03	53%
Colón	Trujillo	60.38	259.11	1.44	1.89	35%
	Tocoa	76.14	350.94	1.46	2.95	35%
	Saba	63.48	315.04	0.92	0.96	40%
Santa Bárbara	Santa Rosa	60.19	908.86	1.49	3.52	34%
	La Unión	58.93	1,677.49	3.32	2.42	35%
	Las Vegas	69.83	989.20	8.05	3.89	33%
	Quimistán	41.46	364.92	0.81	1.48	59%
Cortés	Puerto Cortes	20.12	739.63	0.85	1.49	82%
	Choloma	71.36	393.41	2.16	3.99	31%
	Potrerrillos	55.58	326.96	0.69	0.87	71%
Yoro	Santa Rita	53.47	352.50	1.19	0.93	47%
	Yorito	27.09	315.15	2.17	1.00	75%

Source: Calculations based on the information provided by the SINIMUN to the SEI, Revenue Reports of the Municipalities as of 2011 and INE Forecasts.

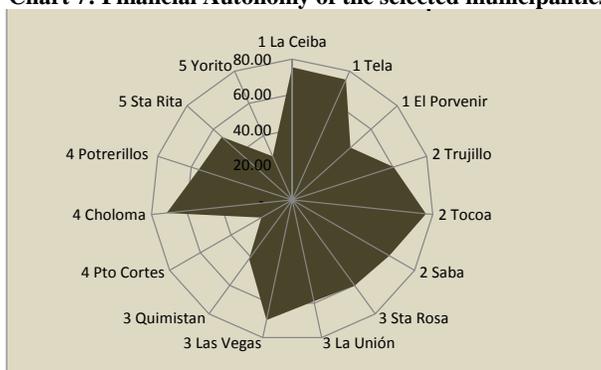
NOTE: An alert system of three levels is presented for each indicator.

### 5.1. Municipal Financial Autonomy Ratio

The Municipal Financial Autonomy (FA) indicator is a percentage ratio of Own Source Revenue (OSR) over the Total Collections (TC), expressed by the formula  $[FA = (OSR/TC)*100]$ . It measures the effort to obtain financial resources by the municipal authorities through the tax regime and specifically through the application of user charges and fees for services, as well as through the sale of assets belonging to the municipality, relative to the total revenue collected by the municipalities, within a set period of time, in this case, 2011.

This model of municipal financial autonomy establishes levels of efficiency, in terms of the municipalities' available capacity to obtain own income, in such a way that a tax administration scoring 100% would be classified as an efficient system for the purpose of obtaining income. Consequently, tax administrations with a score of 65% or higher would be classified as High Capacity systems (Green); those reaching scores higher than 45% but lower than 65% would be classified as systems with Medium Capacity (Yellow); and, finally, the systems with Limited Capacity (Red) shall be those with scores of less than 45%.

**Chart 7: Financial Autonomy of the selected municipalities**



Source: Calculations based on the information provided by the SINIMUN to the SEI, Rent Reports of the Municipalities as of 2011 and INE Forecasts.

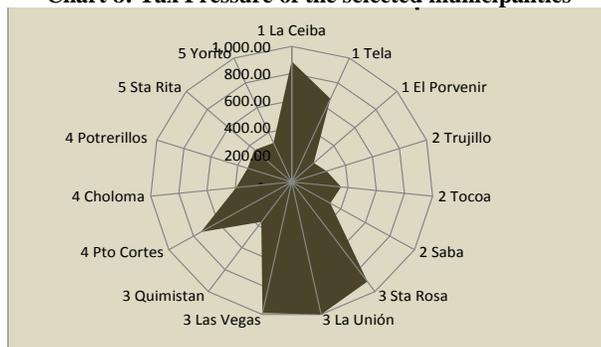
It was observed that, on average, the 15 municipalities that were visited showed relatively strong financial autonomy, since a majority of them were above the national average of 23.38%. Here, the most solvent municipalities were La Ceiba, Tela, Tocoa y Choloma, and the medium capacity municipalities were Trujillo, Sabá, Santa Rosa de Copan, La Unión, Potrerillos and Santa Rita. Finally, the municipalities classified as ones with limited capacities were Porvenir, Quimistán, Yorito and the least autonomous municipality, from financial standpoint, with an indicator of 20.12% (below the national average) was Puerto Cortés.

## 5.2. Municipal Tax Burden

The revenue per capita, or tax burden (TB), is the ratio of municipal revenue (MR) to population as of 2011 expressed by the formula  $[TB = MR/Pop]$ . In other words, it measures the contribution that each inhabitant provides to the financing of the municipal administration. Out of the 15 municipalities visited, it was calculated that the tax burden was Lps. 584.35 by inhabitant on average, which is above the national average of Lps. 238.60, which shows that these municipalities have a better tax base and, in relative terms, a better tax administration and relationship with its taxpayers.

From the standpoint of the municipal revenue per capita model, tax burden levels were established for the municipalities' capacity to obtain own revenue according to the population in such a way that, in the cases under analysis, tax administrations with a score of 584.35 or higher would be classified as systems with Improved Capacity of collecting own funds (Green); those reaching a score of Lps. 238.60 but lower than Lps. 584.35 would be classified as systems with Average Capacity (Yellow); and, finally, those systems with Capacity Lower than average (Red) in the Northern Corridor would be those that do not reach the score of Lps. 238.60.

**Chart 8: Tax Pressure of the selected municipalities**



Source: Calculations based on the information provided by the SINIMUN to the SEI, Rent Reports of the Municipalities as of 2011 and INE Forecasts.

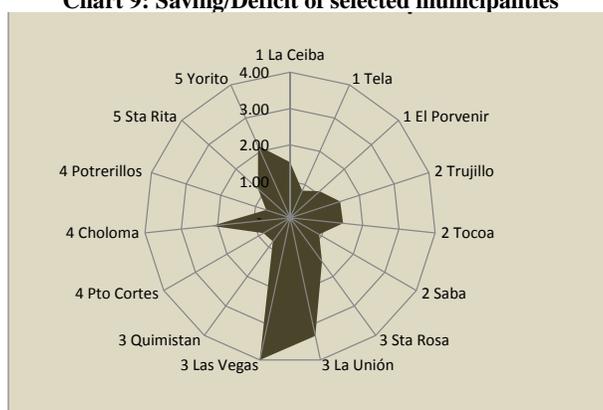
The most significant case was La Unión, as the tax burden indicator for this municipality was calculated at Lps. 1,677.49 per person, which was explained by the levels of collections from the mining company in the municipality and its small population. Other municipalities that were over the average tax burden in the area were La Ceiba, Tela, Santa Rosa de Copan, Las Vegas and Puerto Cortés; and the single municipality under the national average was El Porvenir, with tax burden of Lps. 209.60 per inhabitant. The remaining municipalities had average tax burdens.

### 5.3. Municipal Current Savings or Deficit

The Municipal Current Saving Effort (SE) is the ratio of current revenues (CR) received by the municipality to current expenditures (CE), expressed by the formula  $[SE = CR/CE]$ . Current expenditures include operating expenditure allocations and transfers to different groups of actors present in the territory. This ratio shows whether local governments are able to finance current expenditures with own revenues in a fiscal period, and, hence, whether there is any surplus to finance municipal investment.

Here, if the indicator is greater than 1, the municipality generates current savings and hence it can fund, at least to a certain extent, capital expenditures. If, on the other hand, this indicator is less than 1, it shows that the municipality does not have enough current revenues to fund its current expenditures and that it requires capital revenues to fund these expenditures.

**Chart 9: Saving/Deficit of selected municipalities**



Source: Calculations based on information provided by SEIP SINIMUN, Municipal Revenue Reports as of 2011 and INE Projections.

In this model of savings from the municipal current account, certain levels of administrative management were employed such that municipalities with a ratio greater than or equal to 1.4 were classified as municipalities meeting the municipal legislation in terms of operating expenditure limits and exceeding the current account savings to fund capital expenditures (Green). Municipalities with ratios greater than 1 but lower than 1.4 were classified as municipalities with a sustainable current account management (Yellow) and, finally, municipalities with a ratio lower than 1 were classified as Municipalities in Alert (Red), because they did not cover their current expenditures.

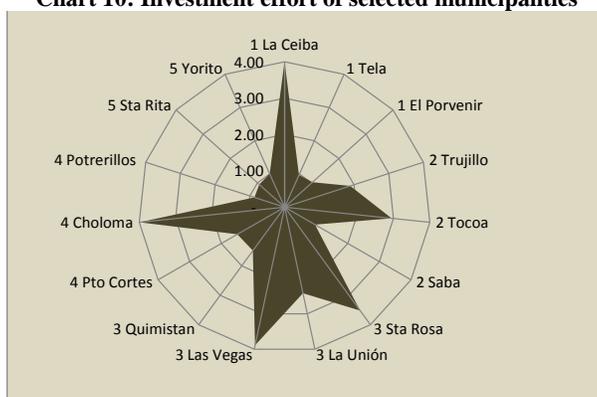
The municipality of Las Vegas stood out among the 15 Municipalities visited, as its current revenues exceeded 8.05 times current expenditures. It was followed by La Unión (3.32) and Yorito (2.17). This implied that, at least to a certain extent, they were funding their capital expenditures. In 7 of the municipalities in this group it was observed that current revenues slightly exceeded the balance point (1) to fund current expenditures. On the other hand, the municipalities of Tela, Sabá, Quimistán, Puerto Cortés and Potrerillos show indicators lower than 1, which means that these municipalities are resorting to their capital revenues to fund current expenditures (operations).

## 5.4. Municipal Investment Effort

This indicator shows the level of investment effort (IE) that municipalities have shown in allocating up to 75% of the total amount of government transfers (T) to fund their investment projects, expressed by the formula  $[IE = Inv/(T * 0.75)]$ . If this indicator is greater than 1, the municipality has allocated a greater share of resources to investment than those provided by government transfers. If, on the other hand, this indicator is lower than 1, it shows that the municipality does not allocate to investments the amounts the Central Government has assigned to that purpose.

In this model of investment efforts, levels of administrative management responsibility were chosen in such a way that municipalities with a ratio greater than or equal to 1.75 were classified as municipalities meeting the municipal legislation in terms of using transfers for investment projects and to fund capital expenditures (Green). On the other hand, municipalities with ratios greater than 1 but lower than 1.75 were classified as municipalities with sustainable investment management (Yellow), and, finally, municipalities with a ratio lower than 1 would be classified as municipalities using the transfers for current expenditures (Red).

**Chart 10: Investment effort of selected municipalities**



Source: Calculations based on information provided by SEIP SINIMUN, Municipal Revenue Reports as of 2011 and INE Projections.

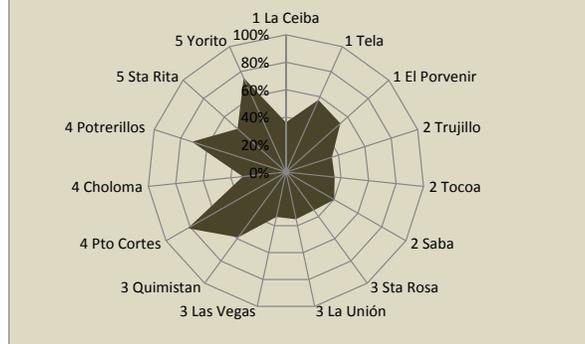
This indicator, among the 15 municipalities visited, was significant in La Ceiba, which conducted an important investment effort with an indicator of 9.83, followed by Las Vegas (3.89) and Santa Rosa de Copán (3.52), and by Trujillo, Tocoa, La Unión and Choloma. On the other hand, the municipalities that did not conduct any investment effort, i.e. with this indicator lower than 1, which implied that they were investing less than 75% of the amounts received as Central Government Transfers, were Tela, Sabá, Potrerillos and Santa Rita.

## 5.5. Municipal Capital Revenues

Within the financing structure of a municipal administration, the relative weight given to capital revenues (CR) compared to total revenues (TR), expressed by the formula  $[CR = (CR/TR) * 100]$  implies a level of dependency on resources external to the municipality, whether government transfers or municipal debt. Ultimately, the higher the value, the higher the dependency of the municipality.

This model of dependency on capital revenues set efficiency levels, in terms of existing capacity to manage own revenues for the development of the municipality, in such a way that municipal administrations lower than or equal to 45% were classified as High Capacity systems (Green), those with scores lower than 65% but greater than 45% were classified as Middle Capacity systems (Yellow), and, finally, Low Capacity systems (Red) would be those municipalities exceeding 65% in terms of capital revenue structure.

**Chart 11: Financial Autonomy of selected municipalities**



Source: Calculations based on information provided by SEIP SINIMUN, Municipal Revenue Reports as of 2011 and INE Projections.

Here, the Puerto Cortés, Potrerillos and Yorito faced an unsustainable situation in terms of municipal financing, because most of their revenues came from external sources.

# VI. Conclusions and Recommendations

---

## 6.1. Municipal Finances

The Municipality Act and its regulations govern most aspects related to municipal own source revenue mobilization. This section recognizes the design deficiencies associated with each of the revenue sources, and aims to provide detailed provisions for mitigating actions in the medium and long term. The short-term recommendations take the existing legislative framework and focus on actions that municipalities can take under their own authority under existing laws. The initial focus is on municipal taxes, the property tax, the industry, commerce and services (ICS) tax, personal tax, and other less significant taxes, such as the livestock tax or the resource exploitation tax. At the outset, three points should be emphasized:

- The first is that under the Municipality Act, the legislative foundation for all of these taxes does not permit any tax rate flexibility for municipalities. As a result, revenue increases will have to come from better management, higher levels of efficiency, and improved taxpayer compliance and collections.
- Second, the property tax is based on a valuation system administered and maintained on the basis of the property of citizens, which should be administered under a set of parameters reset every five years. The property tax is potentially the most important revenue source in terms of municipality's own source revenue mobilization. Observations in the field showed a diminished institutional capacity to keep a cadastre registry, lack of trained staff, or political clientelism to oblige local authorities to make concessions in terms of this tax.
- Third, the current legislative framework defines the bases and rates for some of the potentially most important taxes that appear excessively complex for effective tax administration. Moreover, a relationship between the cost structure for the provision of municipal public services and the user charges and fees was not identified, implying a certain level of municipal subsidy, which could not be quantified.

For the purposes of this study, the recommendation **term** is the time that must elapse from an intervention to the observation of its expected effect or result. The terms are: short, medium, and long.

**Short Term:** Two years. Implementation over the current year yield results during the following year. It implies a change in paradigms.

**Medium Term:** From one municipal term of office to the other. This is a five year term. It includes changes in municipal policies and regulations. It implies the validation of changes.

**Long Term:** From ten to fifteen years. There are more than two changes of the central administration. It includes changes in national policies and regulations. It implies institutionalization.

### 6.1.1. Short-Term Actions

#### a. Establish a Department of Taxation

The organizational structure of Honduran municipalities is characterized by an arrangement of Tax or Tax Control Department, which is responsible for most of the aspects of municipal tax administration. It is also responsible for most any other revenue source, such as intergovernmental transfers and commissions for services and other charges. There are, however, certain variations among municipalities in terms of the levels of specialization in this department. Some municipalities also have the support of a Debt Recovery Unit, in terms of taxes, rates, and charges; some other municipalities have outsourced this resource management task to third-party vendors.

In principle, it is understood that higher mobilization of own source revenues depends largely on efficiency improvements in the tax administration. The following recommendations that will achieve this result are specific tasks and activities that require a higher level of specialization within the tax administration than currently exists. This specialization will permit the development of policies and procedures, and administrative and training systems in these areas. It will require changes in the organizational structure of the municipal administration.

The overarching recommendation is to create a Department of Taxation, whose activities are fully separated from the administration of inter-governmental transfer and other form of Capital Revenue administration and the administration of revenue from charges for public services under a cost accounting structure. The Debt Recovery Unit, when it exists, should be merged with the Department of Taxation and its service provision responsibilities would be coupled with the collection of arrears. The size of this Department would be directly related to the economic potential and scale of the municipality.

In this regard, in order to obtain the maximum effect, the recommendations should be preceded by a modification of organizational structures, with appropriate levels of staff in each of the main departments and by the development of tools, systems, policies, and procedures constituting the essence of an effective, efficient, and fair tax administration. An overview of the main elements of the recommended organizational structure for the tax administration is presented below, taking into account that a partial implementation would have a limited impact.

#### **b. Tax Administration Functional Elements**

The main functional divisions of tax administration are as follows: Taxpayer Services, Collection, and Auditing and Control. The main responsibilities of each of these divisions are described below.

##### **i. Taxpayer Services:**

At the core of the tax administration is a taxpayer registry and a body of information helping taxpayers to meet their legal responsibilities timely and accurately.

The Department of Taxpayer Services should be responsible for the following:

- Taxpayer Registration: Developing a registration database of taxpayers, which will include all relevant information on the taxpayers and the taxes he/she is responsible for. Once the registry file is created, it should be continuously updated, adding new taxpayers and deleting those that no longer exist.
- Taxpayer Information and Assistance: All taxpayers listed in the database should have access to a package of tax forms, instructions, and any other information needed to meet their tax obligations and comply with the tax laws. Information and assistance to properly help taxpayers should be permanently available and should be provided by trained staff.

*Field visits showed that even though taxpayer registries exist in the visited municipalities, they are not systematically updated and significant problems existed with taxpayer registration.*

##### **ii. Tax Collection:**

A Tax Collection Department typically handles the regular intake of tax payments, the monitoring of compliance levels across the whole taxpayer population, and the collection of unpaid tax bills.

Main responsibilities include:

- Revenue Processing and Intake: The processing of tax declarations. The actual receipt of money should be managed through a commercial bank system.
- Revenue Accounting: This is a closely related function. All collected revenues should be allocated to the correct taxpayer for the corresponding tax and period.
- Revenue Monitoring: In order to maintain compliance levels, all taxpayers must be closely monitored to ensure that their payments for designated taxes are received timely and in consistent magnitudes.

Any deviation should be quickly recognized and acted upon with prompt communication with the taxpayer.

- **Collection of Arrears:** The collection of owed unpaid taxes is a critical function to preserve taxpayer compliance. There is an extensive amount of successful practices in this area, some directly from the tax administration sector and some others from the private sector. This function involves rapid and transparent notification followed by a systematic escalation and the establishment of payment methods through agreements with delinquent taxpayers.

*Some of the more advanced municipalities visited have already implemented actions in this area, but most of them have not.*

### **iii. Auditing and Control:**

An **Auditing and Control Department** will examine the tax declarations of selected taxpayers to ensure that their filed tax declarations are consistent with their actual liability. This is an essential activity to ensure acceptable levels of tax compliance, in particular with large taxpayers. If this function does not exist, some taxpayers would distort their real responsibilities and evade them. The possibility to establish presumptive taxation will improve local tax administration levels and their focus on special taxpayers.

The field visits proved that even the more advanced municipalities did not have the capacity to take part in audit and examination. With the exception of the Property Tax, most municipal tax collections are based on voluntary reported liability, or when the taxpayer physically goes to the municipality when in need of assistance.

### **iv. Other functional responsibilities:**

A properly functioning tax administration has a number of other functional responsibilities, such as:

- **Information Exchange.** It is essential to use and exchange information with other tax administration systems. This would include other municipalities, the tax administration bodies at the higher levels of government, and, sometimes, other countries. Coordination with public sector databases and, in particular, with the Executive Revenue Office (DEI) and the National Registry of Vital Records (RTN) is essential.
- **Analysis and Planning.** An efficient tax administration requires a high level of analysis and planning. This would include management analysis to ensure the highest level of administrative efficiency, as well as analysis and planning to forecast revenues and estimate the impact of the new activities.
- **Appeals.** A workable system of administrative appeals is essential to keep high levels of credibility and taxpayer compliance. In this sense, a Municipal Tax Court, based on the community, should streamline the citizen's claims related to tax collections.

### **c. Recommended Compliance Enhancing Campaign Activities and Programs**

Once progress has been achieved in terms of the tax organization and the specialization of its staff, a series of campaigns to improve compliance and activities can be launched.

Some of the most important campaigns are registration campaigns, non-filer/stop-filer programs, an information exchange program, and the creation of a Large Taxpayer Unit or the beginning of the identification of large taxpayers as described below.

#### **i. Taxpayer Registry: Closing the Gap in the Registration System with a Registration Campaign:**

Among the 15 municipalities assessed, it is clear that not all potential taxpayers are registered, and it is highly likely that not all of the registered ones have ever filed their tax declarations. For the Property Tax, for example, the cadastral system had only 70% of existing properties. One of the priorities in a compliance enhancement campaign involves establishing a properly designed and efficient registration database that covers all of the municipal taxes and includes all potential taxpayers.

#### **ii. Non-Filers / Stop-Filers: Important Activity of the Collection Department:**

The staffing and responsibilities of a Collection Department include the need to closely monitor the payment behavior of all taxpayers taking appropriate action when the tax bill is late, when there is a change in the magnitude of payment, or when it becomes substantially overdue.

As municipalities execute the registration campaign described above, the Collections Department would simultaneously execute a “non-filer / stop-filer” campaign using the existing database of registered taxpayers. A “non-filer” is a registered taxpayer who has never filed a tax declaration, while a “stop-filer” is a registered taxpayer who has filed declarations in the past, but has stopped doing so. A “non-filer / stop-filer campaign” is thought of as a one-time activity that identifies such taxpayers and takes the appropriate action. Sometimes, when a taxpayer no longer exists as a result of bankruptcy, relocation, or merger, the appropriate action would be to purge the taxpayer from the database. Other times, the appropriate action will involve the systematic issuance of tax bills, notifying the taxpayer, issuing a series of reminders, and, if necessary, moving towards forced collections and notification. A non-filer / stop-filer program systematically “cleans up” and updates the records of the taxpayer database and in the process can produce significant revenue performance.

### **iii. Collections Department:**

In some of the larger more advanced municipalities, something similar to a collection function was identified. The Debt Collection Unit, a department focused on payment accounts in arrears, sometimes supported it. For example, in La Ceiba, the Debt Collection Unit engaged the services of a private collections company to conduct collection activities (Corporation TX). These are important steps in the right direction.

Collection is one of the fundamental activities of tax administration and there an enormous body of relevant experience available to Honduran municipalities. All would benefit from a close review of their organizational, political, and procedural structures in this important area and from the adoption of a new system of norms and standards for large, medium, and small size Honduran municipalities.

Norms and standards are best thought of as a “package,” which makes up the organizational structure and the detailed policies and procedures. They cover the basic functions of a collection department: the treatment of tax declarations, the monitoring of tax payments and the application of systematic and structured activities to ensure compliance of unpaid tax bills, the design and use of a reporting system, and a systematic and structured use of banks in tax collections. Training should be provided to the staff as a new collection department structure is developed and implemented.

### **iv. Information Exchange and Coordination with the DEI:**

With few exceptions, there are no information exchanges or any other type of coordination with the DEI. This is a serious omission and correcting it could yield advantages both for the municipalities and the DEI. The following types of information exchange and coordination could be highly beneficial:

- **Taxpayer Registration**

It would be beneficial if the DEI could share their registration databases with all municipalities with a special emphasis on active taxpayers. This would significantly help to fill any missing gaps in the municipal systems. As municipalities execute their registration campaigns using other types of information from third parties and by conducting a physical canvas, the results should be shared with the DEI. In this way, systematic access and sharing would be possible.

- **Personal Tax: Information related to withholding agents, withholdings, and sole proprietors**

As part of the exchange of information on registered taxpayers, the municipalities should receive detailed information from the DEI on withholders for the national personal income tax. This

information should include the name and contact information for the businesses withholding income tax located in the municipality. It should also contain information on the individuals withheld upon and the withholding amounts. Once the initial registration has been executed or verified, withholding information should be transferred as a matter of course on a monthly, quarterly, or annual basis.

Not all of the individuals, who pay the national personal income tax, do so through withholding system. Some are sole proprietors or independent professionals who pay their tax liabilities directly through a system of estimated payments. A list of these individuals living in the municipality should also be obtained from the DEI.

Meanwhile, the National Registry of Persons has the address of all citizens, and it should match the registration of the citizens in the municipality. The link between both systems would bolster the collection of this tax.

- **Personal Tax: The DEI and the Municipality – Joint Withholding**

There is a close link between the Personal or Neighbor Municipal Tax and the Income Tax. Currently, companies are responsible to withhold the national personal income tax on behalf of their employees and to remit it to the DEI. They are also responsible for complying with the municipal personal tax. Hence, there should be no logical reason why the two activities should not be combined using a newly designed joint withholding form and instituting a simple payment and report filing system, which allocates collected revenues to the required levels of government. Such a system is used effectively in many parts of the world, where a tax is assigned to one or more levels of government. Indeed, not doing so raises the burden of compliance to the tax withholder since they would have to deal separately with two levels of government and with the additional administrative procedures that would entail.

- **Information Exchange: Income Tax and Sales Tax**

There is a close correspondence between the municipal personal tax and the national personal income tax. The corresponding business taxes are the Corporate Profits Tax and the ICS for the National level of government and the suite of taxes composed of: the ICS, the Livestock Tax, and the Extraction Tax for the municipal level. The same level of close correspondence does not exist between the national and municipal business taxes. At the national level, the ultimate tax base is income after all expenses for the profits tax and total receipts minus purchases from other companies for the ICS while at the local level, the tax base for the ICS is gross receipts. Although the ultimate tax base is different for the national business taxes, information from the declarations of both the ICS will provide information on a taxpayer's gross receipts which can be quite useful in terms of verifying the taxpayer's self-declared gross receipts for the local business taxes.

**v. Large Taxpayers: Strengthen the Administrative and Analytic Focus:**

The larger municipalities visited have large populations of business taxpayers. In the best of circumstances, these represent a significant administrative challenge. However, experience shows that large taxpayers represent a disproportionately high percentage of total business income for the total of taxes paid. It is usual that less than 20% of taxpayers represent more than 80% of corporate income, employment, and taxes paid. Even within this 80%, there is a high level of concentration. These taxpayers are also complex. It is common for the largest companies to have multiple jurisdictions as they might even be multinational, with complex business organization and activities.

As a result, many national tax administrations have established Large Taxpayer Units. These are special units within the tax administration that are responsible for all administrative aspects related to large taxpayers. Frequently, the tax auditing unit oversees large taxpayers' payments more closely in order to ensure they pay timely and in the corresponding amounts. These taxpayers are also subject to frequent controls and other forms of analysis to ensure the declared liability is the correct one. Large Taxpayer Units provide close follow up when payments are delayed or unusual, and a high level of taxpayer services is provided.

## Ways to apply recommendations.

In summary, the following themes and recommendations should be taken into account in the short term:

- ✓ **Organizational Restructuring and Improvements in Registration:** There are huge opportunities to improve the taxpayer registry and to establish efficient and appropriate operations within the local tax administration office. It is necessary to conduct significant efforts to enhance the taxpayer base through coordination with DEI and through specific campaigns related to cadastral registries, ICS, and personal income tax registrations.
- ✓ **System tools, policies and procedures:** Municipalities need to establish the necessary system tools and a framework of policies and procedures to govern main functions and activities to improve tax collections and administration. Some examples of such system tools include a registration database, a master file to record taxpayer payment per type of tax, and a tool to monitor the collection of payments.
- ✓ **Training:** The final activity is training. If accurately conducted, it will include training to use/apply the systems, tools, policies, and procedures mentioned above. What is needed, why and what for should be clear, taking into account the benefits to the parties involved.

In executing these steps it is recommended that the selected municipalities be treated as a group and that regular training, monitoring, and information and experience sharing exists and is promoted among group members.

### 6.1.2. Medium-Term Actions

As mentioned above, the provisions of the Municipality Act that address own source revenues are in serious need of revision, but this will take an amount of time that is difficult to predict. Over the medium term a number of things short of primary legislation may be accomplished. These include implementing regulations that make the current law easier to administer, the establishment of a combined behavior on the part of the municipalities in dealing with larger multi-jurisdictional businesses, and cooperative work with the DEI in the joint administration of personal taxes.

#### a. Application of the Municipality Act Regulations<sup>26</sup>

Currently, the Municipality Act regulations are not applied and this is a serious shortcoming that only increases the design flaws in the law itself. A simple set of secondary legislation could significantly mitigate many current problems. Some examples of the topics covered would be:

- The definitions of all concepts and principles that determine the bases and rates of the taxes.
- The legal authority to change the annual payment of the major taxes to monthly amounts and definitions on how to determine the estimated payments on anticipated liabilities.
- Guidelines on how to deal with some of the more common complex situations, such as the tax treatment of the multi-jurisdiction businesses by the municipalities.
- Provisions for the consolidated tax administration of groups of municipalities.
- Provisions permitting the joint administrative work of the municipal tax administrations with DEI and provisions that makes it clearer that the two levels of government may establish formal agreements.
- Clear guidelines on the definition of residency, both for the Industry, Business and Services Tax and the Personal Tax, and
- Clearer guidance on the application of penalties and sanctions in the cases of delinquency or fraud.

#### b. Multi-Jurisdictional Companies and Consolidated Municipalities Groups

The Industry, Commerce and Service Tax (ICS) is already the primary source of revenue for the majority of the municipalities. It is essentially a tax on gross receipts, which could be better administered by a consolidated group of municipalities when dealing with larger companies in multiple jurisdictions. Consider the following example: Suppose that a large company has facilities in four municipalities. In the first, it researches, develops, and designs its product; in the second, the company products are produced and assembled; and, in the third, the distribution of the product to the customers is

---

<sup>26</sup> The Municipality Act General Regulation was approved as per Executive Agreement No. 018-93 del 01 of February 1993

performed. The fourth municipality is the home of the headquarters operation and this is where all the sales are registered. Which municipality should collect the Industries, Business and Services Tax? It is evident that there is a high degree of confusion on this issue and a lot of room for conflict and perhaps evasion.

The problem becomes simpler both for the taxpayer and the municipality if the total receipts of the company are combined and treated as a whole and if this whole is distributed according to an agreed upon factor distribution algorithm. Therefore, in the absence of this type of approach it is difficult to understand how this important tax could be administered fairly.

### **c. The Personal Tax and Its Joint Administration with DEI**

It is very common for two levels of government to share the base of some variant of a personal income tax. However, experience shows that all parties are better off if there is a high level of coordination between the levels of government in the definitions of tax bases and the administration of the tax. It is not uncommon for the higher level of government to administer the most aspects of billing, collection, and audit on behalf of the lower level of government. This is recommended here – that the DEI modify its withholding system and its tax treatment of sole proprietors and free-lance professionals to collect the personal tax on behalf of the municipalities. Once some straightforward changes are made to the design of the administrative systems, it becomes rather simple and less burdensome for the taxpayer and the withholding agents.

### **6.1.3. Long-Term Actions**

Over the longer run, a significant overhaul of the sections of the Municipality Act related to own source revenue is needed. This is not the forum to offer a detailed critique of the legislation, but a few points deserve to be emphasized.

The basic types of taxes permitted to the municipalities are generally acceptable. There is ample justification precedent for the property tax, the tax on business gross receipts, and the tax on individual income. There is less justification for the extraction and livestock taxes. The former is typically and properly a tax levied by the national government level, and the latter is probably best subsumed within the ordinary taxation of gross receipts or revenue.

The manner in which those taxes are designed is, however, deeply flawed.

- First, they are excessively complex. The rate structures alone are highly complex and can only serve to make administration difficult for public officials and compliance difficult for honest taxpayers. A flat rate for each of the main taxes is strongly recommended.
- Second, because the law mandates the rate structure, there is no provision for municipal choice and autonomy. It is recommended that, in addition to having flat rates for those major taxes, the municipalities have the authority to establish their own tax rates within a limited allowable range, as well as to participate in authorizing tax amnesties generated by the Congress of the Republic.
- Third, at a technical level, the tax bases for the ICS and the personal tax are poorly defined. The municipality that intends to claim the fiscal liability of any taxpayer must abide by the definitions of the related taxes at a national level and there must be no uncertainties in the primary and secondary legislation.

## **6.2. Local Economic Development**

Given a number of existing instruments aimed at local economic development, the following conclusions and recommendations are proposed.

- The planning tools are not utilized as guides in decision-making and there are no linkages between the municipal budgeting process and the regional and national plans. In this sense, a modernization of the municipal planning process should be promoted, thus establishing a long term 2014-2022 Master

Development Plan, conforming to the Nation Law in a comprehensive and multisectorial manner. The proposed linkage and longer-term approach in planning should take into account the process of socialization, particularly with the political class in order to guarantee its sustainability and its connection to the municipal government plans in the long term. Plans must not become a list of isolated projects, but a programmatic approach in line with the main strategic guidelines. Plans must try to counteract negative trends and enhance strengths and opportunities, resulting in a true municipal development strategy.

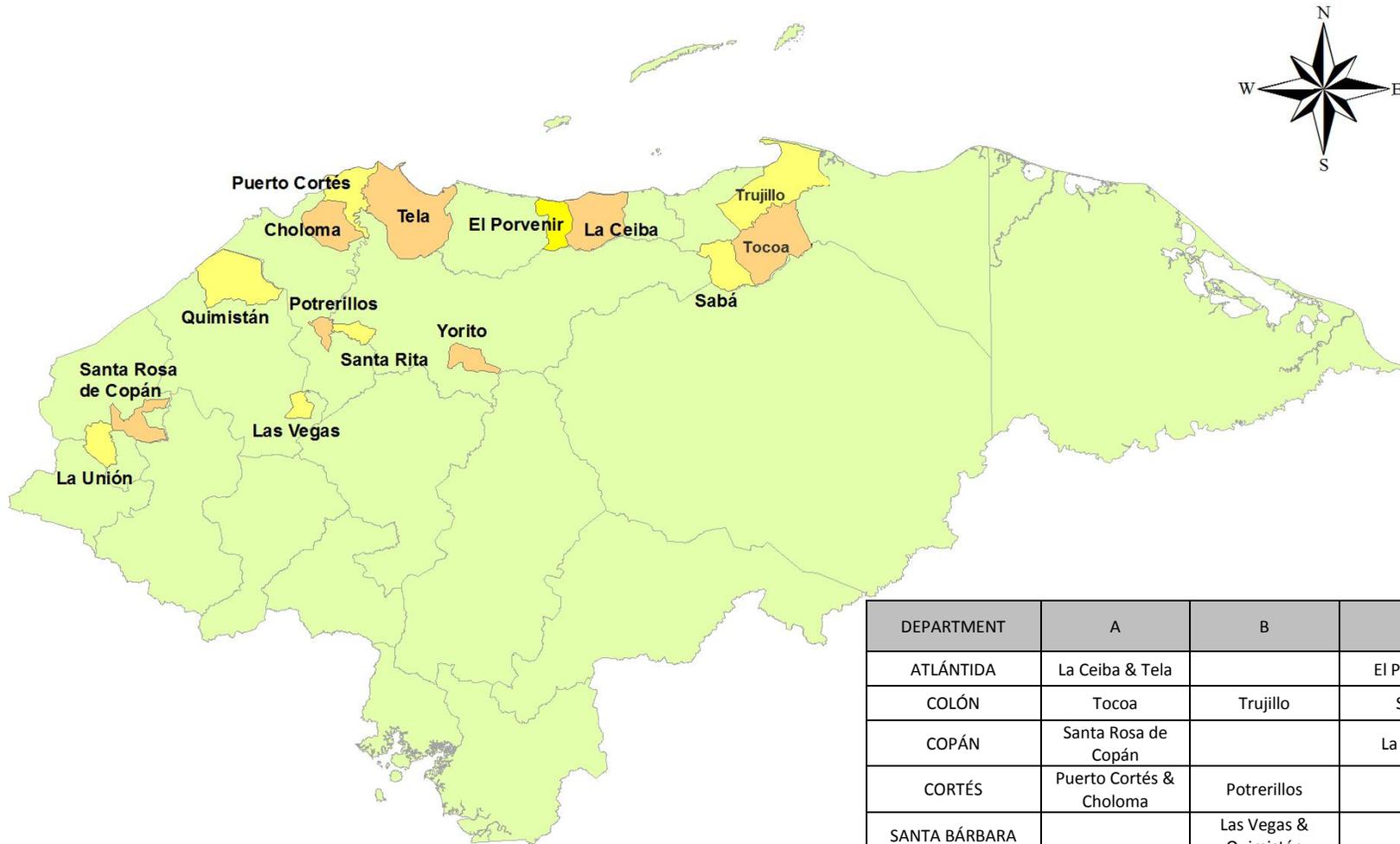
- The municipalities' development plans lack true coordination with the stakeholders and external groups. The plans often result in isolated actions of private investments and limited strategic investments of the local government. In this sense, a social structure should be created to follow up and monitor the development of the strategic plan, linking municipal authorities with the private sector and civil society organizations to direct strategic investments. A specialized group, led by the Chamber of Commerce should be in place to minimize political favoritism at the time of preparation of the municipal plan of action.
- The investments of the national public sector lack coordination and communication with local planning efforts. Upon the implementation of the local Master Plan, a strategic coordination framework with SEPLAN must be implemented. Moreover, this coordination framework can be strengthened with a training program and the preparation of Municipal Strategic Plans.
- The nonexistence of a local development financing mechanism hinders the scheduling of strategic actions and the execution of long-term investments. In this regard, it is important to highlight the financing paths that the municipalities can have access to and their rules for eligibility.

### 6.3. Public Safety

A transition process has been identified that includes a paradigm shift, where the position of the State is to view at public safety as a social commodity, where, in the management model, the surveillance of the environment and punishment to citizens that break the law prevails. The national landscape is shifting from an absent citizen, who does not trust the policies of the State, towards more inclusive policies, that are supported by local institutions. These local institutions are closer to the citizens and are in a better position to understand a service that rewards prevention rather than control and that does not focus in crime but on its causes. Consequently, the following is concluded:

- It is acknowledged that, currently, there is an institutional reform in progress in the safety sector, and that said reform is defining institutional responsibilities, including those of preventive nature by the municipality. In this regard, it is needed that local institutions, besides establishing social networks or vulnerable groups, define Local Security Planning schemes containing preventive actions that must result from a situational analysis defining the crime typology of each place and setting out the corresponding lines of actions and the focus groups that need a specific strategy, such as youth at risk, youth that do not work or study, victims of domestic violence, and children in the streets, among others.
- Initiatives promoting values of peaceful living and highlighting the trust in socialization of public spaces should be prioritized. Citizen surveillance that stimulates the culture of reporting and crime activity monitoring in communities and neighborhoods should be established.
- In the local security sector, a municipal public policy framework oriented towards prevention must be promoted and socialized, defining the main areas of actions and the documenting of success stories recognized in the country or of pilot programs, such as those in the Municipality of Puerto Cortés.
- With the implementation of the National Security Tax, the municipality is limited to generating, with their own revenues, the financing to fund the security actions. Therefore, the Central Government is required to establish the distribution mechanism for these revenues and to finance the local security plans.

## Annex A: Honduras Map with Selected Municipalities



DEPARTMENT	A	B	C
ATLÁNTIDA	La Ceiba & Tela		El Porvenir
COLÓN	Tocoa	Trujillo	Sabá
COPÁN	Santa Rosa de Copán		La Unión
CORTÉS	Puerto Cortés & Choloma	Potrerosillos	
SANTA BÁRBARA		Las Vegas & Quimistán	
YORO		Santa Rita	Yoritó

## Annex B: Selection Indicators

### FINANCIAL INDICATORS OF THE 92 MUNICIPALITIES OF THE NORTHERN CORRIDOR

Department	Municipality	Category	Population 2010	Financial Autonomy	Revenue per capita	Saving Efforts	Investment Effort	75% To Be Invested from Transfers
ATLANTIDA	La Ceiba	A	185,831	68.37	1,598.03	1.0060	25.4519	7190,231
ATLANTIDA	El Porvenir	C	22,517	42.83	363.52	0.7781	1.0628	5590,644
ATLANTIDA	Esparta	C	16,089	36.61	368.91	0.8277	1.0788	4432,284
ATLANTIDA	Jutiapa	C	33,841	52.33	353.82	1.4464	1.3977	5594,479
ATLANTIDA	La Masica	C	28,202	50.82	429.25	1.4975	1.2066	4738,930
ATLANTIDA	San Francisco	C	12,050	58.96	855.86	1.5565	1.6295	5088,781
ATLANTIDA	Tela	A	87,643	66.66	1,160.61	1.9827	2.1785	7030,614
ATLANTIDA	Arizona	C	21,376	57.85	385.73	1.0505	1.0916	3337,686
COLON	Trujillo	B	56,876	75.69	656.64	2.4211	1.2041	7668,353
COLON	Balfate	D	10,898	37.62	308.74	0.8928	0.6681	4168,030
COLON	Iriona	D	21550	55.33	372.08	4.0689	0.0176	4802,606
COLON	Limón	C	10,745	33.42	386.79	0.8080	1.1493	4895,011
COLON	Sabá	B	26,020	65.45	609.23	1.4978	1.0680	5273,909
COLON	Santa Fé	C	6,762	23.37	305.06	0.3408	0.2398	5073,716
COLON	Santa Rosa de Aguán	C	3,106	22.20	506.71	0.4976	0.5708	4094,015
COLON	Sonaguera	C	38,348	72.99	634.90	1.3713	0.8515	6817,335
COLON	Tocoa	A	81,154	77.62	583.89	2.0393	1.0418	8942,498
COLON	Bonito Oriental	C	38,084	49.65	257.72	1.1251	0.9284	5525,739
COPAN	Santa Rosa de Copán	A	56,099	73.50	2,119.21	2.4765	4.6345	4763,838
COPAN	Cabañas	D	12,634	22.19	177.34	0.4935	0.6946	4507,220
COPAN	Concepción	D	7,087	16.21	198.45	0.8131	1.1038	5094,679
COPAN	Copán Ruinas	B	39,377	49.31	385.18	1.5575	3.4689	4026,951
COPAN	Corquin	B	15,795	33.12	320.95	0.7268	0.9962	4999,095
COPAN	Cucuyagua	B	14,117	51.23	493.34	1.4721	1.2067	4759,991
COPAN	Dolores	D	5,857	12.92	188.36	0.3594	1.0228	3593,631
COPAN	Dulce Nombre	C	6,227	18.97	279.39	0.3832	0.7138	3607,375
COPAN	El Paraíso	D	22,476	45.34	333.63	1.7429	1.6980	6124,869
COPAN	Florida	C	28,267	32.11	137.41	0.7143	0.6793	5007,986
COPAN	La Jigua	D	8,988	19.62	212.57	0.5582	0.7836	5257,239
COPAN	La Unión	C	15,647	77.29	2,377.70	2.7202	3.6365	5538,914
COPAN	Nueva Arcadia	A	42,744	76.05	622.64	1.6105	0.8922	5566,806
COPAN	San Agustín	D	4,259	9.82	241.57	0.5318	1.2628	5286,641
COPAN	San Antonio	D	10,563	14.88	139.32	0.3556	0.3592	4352,626
COPAN	San Jerónimo	D	5,267	64.84	1,321.42	0.5420	0.0000	-
COPAN	San José	C	6,135	25.85	413.05	1.5538	1.1038	5094,679
COPAN	San Juan de Opoa	D	8,792	14.40	158.83	0.4298	1.0712	5297,348
COPAN	San Nicolás	C	6,543	22.65	368.53	0.7069	0.9512	4355,158
COPAN	San Pedro	D	6,482	100.00	277.88	0.5752	0.0000	-
COPAN	Santa Rita	C	29,256	50.53	432.42	2.1193	1.1615	7622,075
COPAN	Trinidad de Copán	C	6,409	14.50	193.39	0.8979	1.1210	4184,207
COPAN	Veracruz	D	3,203	25.89	571.41	0.5824	0.7039	3332,637
CORTES	San Pedro Sula	A	719,447	68.77	2,188.56	7.9482	0.4726	135469,316
CORTES	Choloma	A	276,863	87.72	668.91	2.9642	2.2516	13577,167
CORTES	Omoa	B	40,353	58.27	548.21	1.2806	1.3930	6632,976
CORTES	Pimienta	C	25,470	50.70	362.80	0.9047	0.5727	6630,988
CORTES	Potrerrillos	B	23,082	64.88	600.41	3.3747	0.5112	4065,357
CORTES	Puerto Cortés	A	115,186	18.09	1,065.94	0.6489	0.6123	105206,935
CORTES	San Antonio de Cortés	C	20,160	40.61	246.25	0.5855	0.4297	3556,053

Department	Municipality	Category	Population 2010	Financial Autonomy	Revenue per capita	Saving Efforts	Investment Effort	75% To Be Invested from Transfers
CORTES	San Francisco de Yojoa	B	15,536	64.29	670.30	1.7845	1.6753	3017,860
CORTES	San Manuel	B	53,461	69.36	315.84	1.1320	0.5642	5372,667
CORTES	Santa Cruz de Yojoa	A	79,857	88.44	635.69	2.9217	4.7680	4978,507
CORTES	Villanueva	A	137,658	80.38	865.15	2.6479	5.2781	6240,166
CORTES	La Lima	A	63,215	94.50	1,612.12	2.0722	2.3384	4398,563
SANTA BARBARA	Santa Bárbara	A	39,237	61.50	615.89	1.3056	1.3729	7436,733
SANTA BARBARA	Arada	C	9,663	19.36	144.83	0.7353	1.0893	3546,744
SANTA BARBARA	Atima	D	14,907	12.92	127.47	0.8995	1.2063	5629,271
SANTA BARBARA	Azacualpa	C	19,500	35.12	234.96	0.8837	0.6224	5704,792
SANTA BARBARA	Ceguaca	D	4,386	12.24	249.84	0.4311	0.0000	5800,461
SANTA BARBARA	Concepción del Norte	D	8,187	12.71	114.38	0.1985	0.4354	4285,449
SANTA BARBARA	Concepción del Sur	C	7,228	15.44	153.61	0.4678	1.2966	3417,381
SANTA BARBARA	Chinda	D	4,072	13.61	224.57	0.3344	0.9062	3151,405
SANTA BARBARA	El Nispero	C	7,603	25.12	248.75	0.5834	1.1705	3319,451
SANTA BARBARA	Gualala	C	5,009	10.38	185.56	0.3870	1.7468	2552,447
SANTA BARBARA	Ilama	D	9,556	0.00	-	0.0000	0.0000	-
SANTA BARBARA	Macuelizo	B	34,999	42.84	210.12	1.2305	0.9143	6436,093
SANTA BARBARA	Naranjito	C	11,808	8.57	101.78	0.6039	1.0665	5779,155
SANTA BARBARA	Nueva Celilac	D	7,361	18.68	183.35	0.5101	1.2637	3158,214
SANTA BARBARA	Petosa	C	11,196	30.72	304.00	1.2136	0.6991	5671,706
SANTA BARBARA	Protección	D	16,881	11.69	115.03	0.3535	0.7277	10635,727
SANTA BARBARA	Quimistán	B	37,835	56.74	670.54	0.0000	0.0000	7047,207
SANTA BARBARA	San Francisco de Ojuera	D	6,010	14.25	210.34	0.2492	0.6481	5651,267
SANTA BARBARA	San José de las Colinas	C	17,204	32.82	300.73	0.7495	0.7120	4327,156
SANTA BARBARA	San Luis	C	29,672	36.27	163.93	0.6613	0.3616	5204,662
SANTA BARBARA	San Marcos	C	14,748	40.51	300.61	1.0965	1.1886	3809,750
SANTA BARBARA	San Nicolás	C	13,909	30.50	261.59	0.8489	0.9527	5836,592
SANTA BARBARA	San Pedro Zacapa	C	9,268	29.02	236.50	1.0576	1.0369	3737,146
SANTA BARBARA	San Vicente Centenario	C	3,492	17.40	404.63	1.0096	1.0098	4546,136
SANTA BARBARA	Santa Rita	D	3,273	7.55	217.58	0.1441	0.3626	6119,600
SANTA BARBARA	Trinidad	B	19,400	46.23	388.54	0.9696	0.6292	4450,842
SANTA BARBARA	Las Vegas	B	19,829	86.97	2,337.56	3.0231	3.4435	4143,285
SANTA BARBARA	Nueva Frontera	D	16,137	32.91	158.96	0.7987	0.9810	3846,475
YORO	Yoro	C	78,797	75.68	398.02	1.8994	1.7081	7524,827
YORO	Arenal	C	5,097	23.18	310.67	0.5173	0.4742	3926,122
YORO	El Negrito	B	44,054	56.58	333.00	1.3060	0.5289	8203,636
YORO	El Progreso	A	204,429	69.97	739.36	2.3334	2.9220	13233,767
YORO	Jocón	C	8,105	47.65	750.33	1.2346	0.5592	4652,681
YORO	Morazán	C	38,731	64.23	373.62	0.7516	0.8956	5747,508
YORO	Olancho	B	95,953	77.21	518.09	1.3415	1.8495	8181,541
YORO	Santa Rita	B	19,702	56.51	741.75	1.5519	1.2667	4163,930
YORO	Sulaco	C	13,887	26.48	250.68	0.5326	0.6702	4518,177
YORO	Victoria	C	28,504	21.86	92.85	0.4337	0.6659	5287,191
YORO	Yorito	C	14,841	23.42	171.25	0.6232	0.9786	4916,709
<b>TOTALS</b>			<b>3,588,074</b>	<b>3,910</b>	<b>45,427</b>	<b>111</b>	<b>131</b>	<b>707,386,613</b>

## ECONOMIC DEVELOPMENT INDICATORS OF THE 92 MUNICIPALITIES OF THE NORTHERN CORRIDOR

Department	Municipality	Category	Population 2010	Extent of Urbanization	Economic Activity Index	Population Density	No. of Human Settlements	Human Development Index (HDI)
ATLANTIDA	La Ceiba	A	185,831	0.9601	7.800	290.6	93	35.48
ATLANTIDA	El Porvenir	C	22,517	0.6702	0.448	80.3	53	28.85
ATLANTIDA	Esparta	C	16,089	-	0.058	40.4	105	17.56
ATLANTIDA	Jutiapa	C	33,841	0.1115	0.448	63.4	160	19.59
ATLANTIDA	La Masica	C	28,202	0.4235	0.177	59.9	125	24.86
ATLANTIDA	San Francisco	C	12,050	0.5370	0.263	42.4	32	27.80
ATLANTIDA	Tela	A	87,643	0.5195	2.856	73.3	263	27.82
ATLANTIDA	Arizona	C	21,376	0.2398	0.795	37.6	73	21.59
COLON	Trujillo	B	56,876	0.2816	1.814	59.4	164	22.52
COLON	Balfate	D	10,898	-	0.268	32.8	76	17.60
COLON	Iriona	D	21550	-	0.051	5.4	166	14.91
COLON	Limón	C	10,745	0.2148	0.160	18.0	59	21.92
COLON	Sabá	B	26,020	0.5955	1.497	75.6	35	29.80
COLON	Santa Fé	C	6,762	-	0.083	34.6	40	21.07
COLON	Santa Rosa de Aguán	C	3,106	-	0.038	23.8	34	15.60
COLON	Sonaguera	C	38,348	0.3868	0.798	98.6	122	23.45
COLON	Tocoa	A	81,154	0.5930	0.861	95.7	111	28.73
COLON	Bonito Oriental	C	38,084	0.5187	0.456	81.5	105	25.53
COPAN	Santa Rosa de Copán	A	56,099	0.7629	4.885	189.1	102	30.15
COPAN	Cabañas	D	12,634	-	0.093	100.0	58	16.48
COPAN	Concepción	D	7,087	-	0.189	95.6	41	19.14
COPAN	Copán Ruinas	B	39,377	0.2515	1.110	106.1	136	19.19
COPAN	Corquin	B	15,795	0.4629	0.324	112.7	80	26.56
COPAN	Cucuyagua	B	14,117	0.3283	0.522	106.0	72	22.52
COPAN	Dolores	D	5,857	-	0.061	124.4	29	15.68
COPAN	Dulce Nombre	C	6,227	0.8304	0.469	200.2	11	28.93
COPAN	El Paraíso	D	22,476	0.2703	0.476	89.0	92	25.84
COPAN	Florida	C	28,267	0.2609	0.516	81.9	136	19.21
COPAN	La Jigua	D	8,988	-	0.151	78.6	63	17.57
COPAN	La Unión	C	15,647	-	0.165	72.9	100	24.02
COPAN	Nueva Arcadia	A	42,744	0.6041	0.708	282.5	82	27.92
COPAN	San Agustín	D	4,259	-	0.109	58.2	39	15.37
COPAN	San Antonio	D	10,563	-	0.117	88.5	38	16.03
COPAN	San Jerónimo	D	5,267	-	0.049	73.0	32	17.57
COPAN	San José	C	6,135	-	0.157	95.6	40	19.77
COPAN	San Juan de Opoa	D	8,792	-	0.157	113.9	62	15.93
COPAN	San Nicolás	C	6,543	0.5556	0.152	88.2	58	23.05
COPAN	San Pedro	D	6,482	-	0.084	97.9	48	19.30
COPAN	Santa Rita	C	29,256	0.1457	0.204	100.3	166	31.79
COPAN	Trinidad de Copán	C	6,409	0.5490	0.176	86.4	45	22.49
COPAN	Veracruz	D	3,203	-	0.077	99.8	18	17.59
CORTES	San Pedro Sula	A	719,447	0.9507	0.157	800.6	223	35.70
CORTES	Choloma	A	276,863	0.8324	3.006	618.7	231	30.36
CORTES	Omoa	B	40,353	0.5576	1.999	105.6	118	26.51
CORTES	Pimienta	C	25,470	0.9578	0.065	421.0	23	31.27
CORTES	Potreros	B	23,082	0.8372	0.295	263.5	32	30.11

Department	Municipality	Category	Population 2010	Extent of Urbanization	Economic Activity Index	Population Density	No. of Human Settlements	Human Development Index (HDI)
CORTES	Puerto Cortés	A	115,186	0.6599	3.052	294.9	146	30.48
CORTES	San Antonio de Cortés	C	20,160	0.2736	0.198	89.5	129	24.32
CORTES	San Francisco de Yojoa	B	15,536	0.2334	0.342	161.8	59	26.08
CORTES	San Manuel	B	53,461	0.6757	0.882	388.2	94	28.01
CORTES	Santa Cruz de Yojoa	A	79,857	0.3947	1.776	110.5	283	25.25
CORTES	Villanueva	A	137,658	0.5013	1.924	383.6	221	27.85
CORTES	La Lima	A	63,215	0.8651	2.020	546.8	48	32.69
SANTA BARBARA	Santa Bárbara	A	39,237	0.4626	1.511	132.7	122	29.05
SANTA BARBARA	Arada	C	9,663	0.3893	0.156	89.5	65	21.17
SANTA BARBARA	Atima	D	14,907	-	0.117	74.6	63	17.57
SANTA BARBARA	Azacualpa	C	19,500	0.3999	0.144	87.7	78	23.96
SANTA BARBARA	Ceguaca	D	4,386	-	0.062	71.7	30	17.52
SANTA BARBARA	Concepción del Norte	D	8,187	-	0.052	60.8	90	17.39
SANTA BARBARA	Concepción del Sur	C	7,228	-	0.122	114.2	45	17.08
SANTA BARBARA	Chinda	D	4,072	-	0.067	59.5	53	16.08
SANTA BARBARA	El Nispero	C	7,603	0.3881	0.152	96.9	29	21.63
SANTA BARBARA	Gualala	C	5,009	-	0.116	69.2	47	18.59
SANTA BARBARA	Ilama	D	9,556	-	0.097	53.3	83	17.32
SANTA BARBARA	Macuelizo	B	34,999	0.5551	0.918	139.7	123	25.11
SANTA BARBARA	Naranjito	C	11,808	0.4066	0.156	90.5	77	21.11
SANTA BARBARA	Nueva Celilac	D	7,361	-	0.096	44.6	65	17.22
SANTA BARBARA	Pettoa	C	11,196	-	0.358	53.3	102	17.30
SANTA BARBARA	Protección	D	16,881	0.1763	0.120	113.4	81	17.03
SANTA BARBARA	Quimistán	B	37,835	0.2799	1.155	51.7	187	21.77
SANTA BARBARA	San Francisco de Ojuera	D	6,010	-	0.060	30.7	51	15.84
SANTA BARBARA	San José de las Colinas	C	17,204	0.2790	0.216	70.9	142	20.69
SANTA BARBARA	San Luis	C	29,672	0.2804	0.347	77.8	170	18.48
SANTA BARBARA	San Marcos	C	14,748	0.3570	0.223	66.2	86	22.04
SANTA BARBARA	San Nicolás	C	13,909	0.3517	0.080	160.6	58	22.00
SANTA BARBARA	San Pedro Zacapa	C	9,268	-	35.963	40.7	69	18.79
SANTA BARBARA	San Vicente Centenario	C	3,492	0.9863	0.114	85.6	10	27.50
SANTA BARBARA	Santa Rita	D	3,273	-	0.041	39.2	39	18.36
SANTA BARBARA	Trinidad	B	19,400	0.2998	1.434	120.4	129	22.87
SANTA BARBARA	Las Vegas	B	19,829	0.4482	0.323	186.9	81	25.55
SANTA BARBARA	Nueva Frontera	D	16,137	0.4831	0.188	103.9	50	18.11
YORO	Yoro	C	78,797	0.2443	1.247	34.6	525	20.95
YORO	Arenal	C	5,097	-	0.081	30.1	45	21.18
YORO	El Negrito	B	44,054	0.4427	0.708	85.7	165	21.41
YORO	El Progreso	A	204,429	0.8680	0.215	380.9	213	31.86
YORO	Jocón	C	8,105	-	0.087	23.4	88	17.19
YORO	Morazán	C	38,731	0.3390	1.320	74.7	124	23.22
YORO	Olanchito	B	95,953	0.4130	3.080	47.3	394	24.81
YORO	Santa Rita	B	19,702	0.7515	0.525	132.3	36	31.79
YORO	Sulaco	C	13,887	0.2818	0.169	58.7	100	20.83
YORO	Victoria	C	28,504	0.1017	0.288	35.8	279	17.91
YORO	Yorito	C	14,841	0.2071	0.242	71.0	102	20.11
<b>TOTALS</b>			<b>3,588,074</b>	<b>29</b>	<b>98</b>	<b>11,299</b>	<b>9,267</b>	<b>2,084</b>

**PUBLIC SAFETY INDICATORS OF THE 92 MUNICIPALITIES OF THE NORTHERN CORRIDOR**

Department	Municipality	Category	Population 2010	Homicide Rate per 100,000	Security Index /Homicide Rate	No. of Homicides
ATLANTIDA	La Ceiba	A	185,831	158.2	0.16%	294
ATLANTIDA	El Porvenir	C	22,517	109.6	0.11%	25
ATLANTIDA	Esparta	C	16,089	109.6	0.11%	18
ATLANTIDA	Jutiapa	C	33,841	109.6	0.11%	37
ATLANTIDA	La Masica	C	28,202	109.6	0.11%	31
ATLANTIDA	San Francisco	C	12,050	109.6	0.11%	13
ATLANTIDA	Tela	A	87,643	109.6	0.11%	96
ATLANTIDA	Arizona	C	21,376	109.6	0.11%	23
COLON	Trujillo	B	56,876	96.7	0.10%	55
COLON	Balfate	D	10,898	86.6	0.09%	9
COLON	Iriona	D	21550	86.6	0.09%	19
COLON	Limón	C	10,745	86.6	0.09%	9
COLON	Sabá	B	26,020	86.6	0.09%	23
COLON	Santa Fé	C	6,762	86.6	0.09%	6
COLON	Santa Rosa de Aguán	C	3,106	86.6	0.09%	3
COLON	Sonaguera	C	38,348	86.6	0.09%	33
COLON	Tocoa	A	81,154	86.6	0.09%	70
COLON	Bonito Oriental	C	38,084	86.6	0.09%	33
COPAN	Santa Rosa de Copán	A	56,099	71.3	0.07%	40
COPAN	Cabañas	D	12,634	88.5	0.09%	11
COPAN	Concepción	D	7,087	88.5	0.09%	6
COPAN	Copán Ruinas	B	39,377	88.5	0.09%	35
COPAN	Corquin	B	15,795	88.5	0.09%	14
COPAN	Cucuyagua	B	14,117	88.5	0.09%	12
COPAN	Dolores	D	5,857	88.5	0.09%	5
COPAN	Dulce Nombre	C	6,227	88.5	0.09%	6
COPAN	El Paraíso	D	22,476	88.5	0.09%	20
COPAN	Florida	C	28,267	88.5	0.09%	25
COPAN	La Jigua	D	8,988	88.5	0.09%	8
COPAN	La Unión	C	15,647	88.5	0.09%	14
COPAN	Nueva Arcadia	A	42,744	88.5	0.09%	38
COPAN	San Agustín	D	4,259	88.5	0.09%	4
COPAN	San Antonio	D	10,563	88.5	0.09%	9
COPAN	San Jerónimo	D	5,267	88.5	0.09%	5
COPAN	San José	C	6,135	88.5	0.09%	5
COPAN	San Juan de Opoa	D	8,792	88.5	0.09%	8
COPAN	San Nicolás	C	6,543	88.5	0.09%	6
COPAN	San Pedro	D	6,482	88.5	0.09%	6
COPAN	Santa Rita	C	29,256	88.5	0.09%	26
COPAN	Trinidad de Copán	C	6,409	88.5	0.09%	6
COPAN	Veracruz	D	3,203	88.5	0.09%	3
CORTES	San Pedro Sula	A	719,447	147.8	0.15%	1063
CORTES	Choloma	A	276,863	83.3	0.08%	231
CORTES	Omoa	B	40,353	83.3	0.08%	34
CORTES	Pimienta	C	25,470	83.3	0.08%	21
CORTES	Potrerrillos	B	23,082	83.3	0.08%	19

Department	Municipality	Category	Population 2010	Homicide Rate per 100,000	Security Index /Homicide Rate	No. of Homicides
CORTES	Puerto Cortés	A	115,186	83.3	0.08%	96
CORTES	San Antonio de Cortés	C	20,160	83.3	0.08%	17
CORTES	San Francisco de Yojoa	B	15,536	83.3	0.08%	13
CORTES	San Manuel	B	53,461	83.3	0.08%	45
CORTES	Santa Cruz de Yojoa	A	79,857	83.3	0.08%	67
CORTES	Villanueva	A	137,658	83.3	0.08%	115
CORTES	La Lima	A	63,215	83.3	0.08%	53
SANTA BARBARA	Santa Bárbara	A	39,237	119.8	0.12%	47
SANTA BARBARA	Arada	C	9,663	72.4	0.07%	7
SANTA BARBARA	Atima	D	14,907	72.4	0.07%	11
SANTA BARBARA	Azacualpa	C	19,500	72.4	0.07%	14
SANTA BARBARA	Ceguaca	D	4,386	72.4	0.07%	3
SANTA BARBARA	Concepción del Norte	D	8,187	72.4	0.07%	6
SANTA BARBARA	Concepción del Sur	C	7,228	72.4	0.07%	5
SANTA BARBARA	Chinda	D	4,072	72.4	0.07%	3
SANTA BARBARA	El Nispero	C	7,603	72.4	0.07%	6
SANTA BARBARA	Gualala	C	5,009	72.4	0.07%	4
SANTA BARBARA	Ilama	D	9,556	72.4	0.07%	7
SANTA BARBARA	Macuelizo	B	34,999	72.4	0.07%	25
SANTA BARBARA	Naranjito	C	11,808	72.4	0.07%	9
SANTA BARBARA	Nueva Celilac	D	7,361	72.4	0.07%	5
SANTA BARBARA	Pettoa	C	11,196	72.4	0.07%	8
SANTA BARBARA	Protección	D	16,881	72.4	0.07%	12
SANTA BARBARA	Quimistán	B	37,835	72.4	0.07%	27
SANTA BARBARA	San Francisco de Ojuera	D	6,010	72.4	0.07%	4
SANTA BARBARA	San José de las Colinas	C	17,204	72.4	0.07%	12
SANTA BARBARA	San Luis	C	29,672	72.4	0.07%	21
SANTA BARBARA	San Marcos	C	14,748	72.4	0.07%	11
SANTA BARBARA	San Nicolás	C	13,909	72.4	0.07%	10
SANTA BARBARA	San Pedro Zacapa	C	9,268	72.4	0.07%	7
SANTA BARBARA	San Vicente Centenario	C	3,492	72.4	0.07%	3
SANTA BARBARA	Santa Rita	D	3,273	72.4	0.07%	2
SANTA BARBARA	Trinidad	B	19,400	72.4	0.07%	14
SANTA BARBARA	Las Vegas	B	19,829	72.4	0.07%	14
SANTA BARBARA	Nueva Frontera	D	16,137	72.4	0.07%	12
YORO	Yoro	C	78,797	107.9	0.11%	85
YORO	Arenal	C	5,097	82.2	0.08%	4
YORO	El Negrito	B	44,054	82.2	0.08%	36
YORO	El Progreso	A	204,429	82.2	0.08%	168
YORO	Jocón	C	8,105	82.2	0.08%	7
YORO	Morazán	C	38,731	82.2	0.08%	32
YORO	Olanchito	B	95,953	82.2	0.08%	79
YORO	Santa Rita	B	19,702	82.2	0.08%	16
YORO	Sulaco	C	13,887	82.2	0.08%	11
YORO	Victoria	C	28,504	82.2	0.08%	23
YORO	Yorito	C	14,841	82.2	0.08%	12
<b>TOTALS</b>			<b>3,588,074</b>	<b>85.74</b>	<b>7.89%</b>	<b>3,664</b>

## Annex C: Recent Initiatives in Local Citizen Security

---

### Peace and Coexistence Project for the Valle de Sula Region (BID 1123-SF-HO)

In 2002, the execution of the “Blue Freedom Plan” began with the purpose of facing the high impact of the gang phenomena, without significantly achieving any improvement of the security indicators. The situation convinced the authorities of the need to look for other solutions beyond the vision of policeman-judge-jail in order to start acting on solutions that provided an answer to the emergency posed by violence and crimes from the more comprehensive standpoint of building a more dignified citizenship and environment.

At this historical time, attention was focused on the Valle de Sula region, where, by the beginning of the decade of 2000, it was calculated that there were at least 141 groups of gangs (*maras*) that gathered 36% of the 30,000 young people thought to be in the country. The first steps that would definitively include the municipal authorities in the solution of public safety problems were being taken.

The goal of the project was to improve the levels of peace, coexistence, and public safety in the 17 municipalities of the Valle de Sula region, with emphasis on reducing the lack of safety and the violence rates affecting young people of 12 to 25 years of age, by working on: (i) institutional strengthening, (ii) social prevention of violence and juvenile crime, (iii) the development of a community and/or preventive police in the Valle de Sula region, and (iv) the implementation of a social communication and awareness strategy.

At the end of its implementation, the program evidenced the need to clarify the framework of municipal and national responsibilities regarding public safety and to improve the analysis processes for local safety, for example, in the development of crime observatories and, consequently, in the policy planning and management processes and solutions according to the identified local situations.

Similarly, the program evidenced the need to create coordinated cooperation mechanisms between the police and local authorities, since, during the Community Police project, good cooperation between the participating institutions, and with the Peace and Coexistence Municipal Committees (CMPC) themselves, did not exist. It also showed the excessive rotation of police officers that seriously damaged the progress of the actions already initiated, since each change of a police captain implied a restart of the crime prevention and community liaison processes.

### Strengthening of Public Safety in the Local Area (UNDP)

The United Nations Development Programme (UNDP) implemented the “Strengthening Public Safety in the Local Area” project, which was an initiative for the municipalities to prepare and develop local public safety plans from a collaborative analysis performed between local authorities and the citizens. A Comprehensive Public Safety Plan for the municipality of the Central District was prepared in a participatory manner with the members of the Security Commission, who worked hard to prevent violence and crime and encouraged peaceful coexistence with an emphasis on higher risk population, children, adolescents, and youth.

This methodology was later rolled out between 2008 and 2010 with the involvement of other organizations, including the Honduran Municipality Association (AMHON), the civil society organization CIPRODEH, and other municipalities, such as Choloma, La Ceiba, Juticalpa, Comayagua, Choluteca, Roatán, Utila, Guanaja, Santos Guardiola, and Santa Rosa de Copán. In order to choose the municipalities that would benefit from it, implementers considered the high rate of homicides as in the case of La Ceiba y Choloma, prior experience in security management as in Juticalpa, Comayagua, and Choluteca, where the United Nations Joint Program of Support to Human Security in Honduras (PCASH)

had been implemented, cities with a sustained increase in the homicide rate as in the case of the Central District, and municipalities of special economic interest, such as Islas de la Bahía for the negative impact of violence in tourism.

#### **Democratic Governance Strengthening Program (AMHON)**

For its part, the Honduran Municipality Association (AMHON), with the support of Cooperación Española, implemented this program that looked to develop municipal capacity to promote public policies aimed to improve the municipal management of safety, especially in the local administration of public safety, access to formal justice, the complementary development of a municipal coroner and local morgue system, and the strengthening of local office attention to gender violence. This program, which currently benefits nine municipalities, widely promotes community involvement in identifying problems of coexistence and local safety, in the preparation of proposals for intervention plans and programs, as well as in their follow-up and evaluation.

Among its conclusions, the program highlighted the view that local governments have huge advantages in managing safety, such as (i) better knowledge of the local situations; (ii) higher capacity to provide more efficient services; (iii) better management accountability schemes; and (iv) higher capacity to ensure the democratization processes in the community space.

#### **Security Sector Support Program (PASS- UE)**

In addition, AMHON launched a Security Sector Support Program (PASS), funded by the European Union, which had a national scope and worked in three areas: i- Prevention, ii- Security, and iii- Rehabilitation, directing its administration towards urban areas, especially Tegucigalpa and San Pedro Sula, and leading an important modernization process in the local safety management.

#### **The Koban Model<sup>27</sup> (JICA)**

In December 2008, the Japan International Cooperation Agency (JICA) and the Security Department signed a technical cooperation agreement to implement the “Project for the Training of Members of the National Police in the Community Philosophy according to the Japanese Model”. The model proposed to get police officers closer to the community they were protecting to strengthen the police-citizen partnership. The term Koban was a reference to the community police stations in Japan, inside which a group of policemen dealt directly with the community aiming to bolster the interaction between the police and the community.

The project was experimental and focused on the areas of Flor de Campo and La Joya in Tegucigalpa and on Río Blanco in San Pedro Sula, with police posts, which performed community outreach work and which served as a reference point of the whole work in the territory. 24 policemen work in La Joya in Tegucigalpa, where the model has been applied according to standards, and cover an area of 2.2 kilometers, being present on foot, working “door-to-door” or “face-to-face” with the citizens.

#### **Support Program for the Implementation of the Global Coexisting and Public Safety Policy (HO-L1063)**

This US\$ 63.8 million program has not yet entered its execution stage and has the general aim of contributing to the prevention and resolution of crime through the improvement of: (i) the effectiveness in the institutional and operational management of the Security Department (SS)-National Police (PN); (ii) the capacity to investigate crimes; and (iii) the management of coexistence and public safety at a territorial level in the municipalities benefited by this program.

The project launched by strengthening the current Community Prevention and Development Undersecretary in such a way that it built the capacity to direct relations between national and local

---

<sup>27/</sup> The **KOBAN** word resumes the spirit of the model: **Ko**: Interchange; **Ban**: Surveillance

affairs in the topic of public safety, especially in terms of political orientation of violence and crime prevention programs, seeking to solve the current deficit in the coordination between National Police and local authorities and the lack of orientation of community participation in coexistence and public safety activities.

The Program execution will assist in the creation of a local security management unit or steering group, from which to bolster the Safer Municipalities Program and training components in terms of training of municipal officials in the design of public safety policies at the local level, their execution, follow up, and evaluation, with the support of an strategic direction environment, such as a Municipal Board about Coexistence and Citizen Security, or a Local Commission of Citizen Security as appropriate.

#### **Pilot project “Tools to Support Violence Prevention through Environmental Design” Citylinks Program No.: OAA-L-11-00008**

The Pilot Project, which was began in August two years ago, aims to increase the capacity of actors in the Central Government, such as the Honduran Fund of Social Investment (FHIS), of Local Governments in La Ceiba and Choloma and at the community level, seeking to develop strategies for the prevention of violence through environmental design, improving the conditions for adaptation to climate change.

The Project would foster the coordination and implementation of activities in the three levels. First, by strengthening and coordinating with the FHIS, to provide assistance and strengthen the municipalities of the Pilot; second, to achieve better participation, commitment and leadership level in the Municipalities in the “Municipal Commissions to Prevent Violence” (CMPV) and also, to be able to offer answers with community infrastructure projects designed pursuant the prevention and climatic change focus, using the methodology of Crime Prevention through Environmental Design (CPTED); and, finally, on a community level, promote citizen organization in charitable foundations to define and prioritize their needs and determine which projects are more convenient to implement in order to improve prevention climate with a focus in details of the environmental design CPTED. Also, they participate through their representatives, in the CMPV, in charge of drafting a municipal prevention plan with direct support of civil society organizations, private corporations, and other government institutions operating in the territory.

In interventions and efforts to support municipalities, FHIS will also have the support of three other implementers of USAID/Honduras and Central America Regional Security Initiative (CARSI) programs, such as support from USAID /Community Action for Prosperity (CAP)<sup>28</sup>, with donations to local NGOs to provide technical assistance and training to communities in prioritizing projects; from USAID / Honduran Youth Alliance (AJH)<sup>29</sup> with prevention initiatives with young people in communities across outreach centers; and from the UNDP for the design of Local Plans for Coexistence and Public Safety, known as “Safer Municipalities.”

#### **Citizen Participation Project and Transparency of Impact Program. Counterpart International / USAID**

This five-year long project (started in January 2011) seeks to increase transparency and accountability of public institutions, supporting initiatives lead by civil society organizations. In this regard, it aims to improve the effectiveness of civil society organizations, to influence the transparency and accountability of public institutions, as well as to strengthen their capacity by enabling a more favorable environment for transparency.

---

<sup>28/</sup> Social Opportunities Program - Community Action for Prosperity (CAP), implemented by Counterpart Int'l y MSI

<sup>29/</sup> Honduran Youth Alliance (AJH), implemented by Creative Associates

The actions proposed by the program are intended to implement a system of grants for: 1) the training of civil society organizations; 2) the monitoring of public sector management; 3) research and transparency advocacy issues; and 4) the development of public information campaigns. Moreover, the program seeks to implement a training and technical assistance system for civil society organizations and public institutions related to accountability, citizen participation, and transparency, as well as to enable and promote discussion channels between civil society organizations and public institutions.

The Program will also bolster a system of self-regulation and accountability for civil society organizations and will promote national and international learning exchanges.

#### **Social opportunities for Impact Program: Counterpart International / USAID**

The purpose of this project is to improve citizen and community safety by strengthening the capacity of the community and the local government to prevent violence. The project will strengthen the capacity of communities working with the authorities of seven municipalities, the private sector, civil society organizations, and charitable foundations to plan and put into practice activities related to the root causes of the lack of safety, considering the unique motivations of the youth and other groups at risk, providing tools to implement participatory and inclusive activities to improve standards of living. The area of project influence includes the following seven municipalities: Tegucigalpa, San Pedro Sula, Choloma, Tela, Ceiba, Choluteca, and Santa Rosa de Copan.

Started in June 2011, the 5-year-long project seeks to reduce the number of reported crimes by increasing the perception of safety and cohesion on part of the citizens in the target communities, as to improve the capacity of civil society organizations at the municipal level to work with communities in a sustainable manner and to face the challenges related to social exclusion and limited opportunities, as well as to improve citizen satisfaction with the support and services provided by local governments through the strengthening of the government's capacity and response and promoting greater opportunities for citizen participation in the development of policies and reforms.

## Annex D: Profile of Analyzed Municipalities

---

Annex D is attached as a separate document

<u>Tela, Atlántida</u>	<u>D-1</u>
<u>La Ceiba, Atlántida</u>	<u>D-8</u>
<u>El Porvenir, Atlántida</u>	<u>D-15</u>
<u>Sabá, Colón</u>	<u>D-22</u>
<u>Trujillo, Colón</u>	<u>D-28</u>
<u>Tocoa, Colón</u>	<u>D-35</u>
<u>Santa Rosa de Copán, Copán</u>	<u>D-41</u>
<u>La Unión, Copán</u>	<u>D-47</u>
<u>Choloma, Cortés</u>	<u>D-52</u>
<u>Potrerosillos, Cortés</u>	<u>D-57</u>
<u>Puerto Cortés, Cortés</u>	<u>D-62</u>
<u>Las Vegas, Santa Bárbara</u>	<u>D-67</u>
<u>Quimistán, Santa Bárbara</u>	<u>D-72</u>
<u>Yorito, Yoro</u>	<u>D-77</u>
<u>Santa Rita, Yoro</u>	<u>D-83</u>

## Glossary

---

**Administrative Decentralization:** The process, through which jurisdictions that belong, in general, to the Central Government, are assigned to Local Governments.

**Allocation:** The assignment of autonomy to exercise the allocated functions. Government levels are empowered to select their own authorities. Hence, the central level assigns a jurisdiction to municipal authorities to be exercised independently being accountable to the community.

**Capital Grant – Expenditure:** Non-compulsory transfers by the municipality to another government section or civil society unit without consideration of any goods and services and *related to the acquisition of an asset* by the beneficiary.

**Capital Grant – Income:** Transfers received by the municipality from other sections of the general government, international bodies or foreign governments, with or without consideration of any goods or services or a conditional counterpart and *related to or subject to the acquisition of any asset* by the beneficiary.

**Capital Income:** Income that modifies the municipality's net wealth, such as the profits from taxes on improvement, transfers, subsidies, grants, inheritances, donations, and, in general, any revenue of this nature, that pursuant to the Municipality Act is classified as nontax revenue.

**Capital Transfer – Income:** Gift or voluntary donation to a municipality *related to or subject to the acquisition or generation of assets*.

**Civil Society:** Organized interest groups in the community. Political engagement quality and the level of influence the community gains upon public decision-making depend on its organization. Civil society may be made up of: user associations, parents' boards, churches, non-governmental organizations, and social clubs, among others.

**Cofinancing:** The financing of projects with revenues from several sources.

**Current Grant – Expenditure:** Subsidy or transfer delivered by the municipality, without consideration of any goods or services and *not related to or subject to the acquisition of any asset* by the beneficiary.

**Current Grant – Income:** Subsidy or transfer received by the municipality from other sections of the general government, international bodies, or foreign governments, without consideration of any goods or services and *not related to or conditioned to the acquisition of any asset* by the beneficiary. *These do not include* contributions of companies or the private sector.

**Current Income:** Income from the regular activity of the municipality and that does not represent any indebtedness or reduction of net wealth. It is classified, in turn, as tax and nontax.

**Current Transfer – Income:** Gift or voluntary donation of the non-business private sector (individuals, non-profit private organizations, foundations, NGOs) and companies (public or private) to a municipality, *not related to or subject to the acquisition or generation of assets*.

**Decentralization:** The transfer of jurisdictions or administrative functions of a lower or subordinated body from the central government to the local government.

**Development Level:** An indicator that measures the urban population percentage of each municipality. In general, the wider spread the population is, the lesser it has access to public services.

**Fee Regime:** The allocation basic instrument which sets forth rates for services, regulations and procedures relative to the municipal tax system.

**Financial Autonomy Ratio:** An indicator that relates the effort made in obtaining financial resources by municipal authorities, through the tax regime, specifically through the application of taxes and fees for services and the sale of municipal assets, to the total income collected by the municipalities, within a set period of time.

**Fiscal Decentralization:** Processes aimed at strengthening the capacity of municipalities to generate own revenue. With higher levels of revenue, the municipal government's dependency on transfers for operating expenditures is reduced and these can be used in conjunction with credit to develop investment projects.

**Governmental Transfers:** Contributions the State transfers annually to the municipalities, in monthly advanced allocations, through the National Banking System, from the Republic General Budget of revenues and expenditures.

**Human Development Index:** An index published by UNDP and consisting of three variables: life expectancy upon birth, educational attainment (adult literacy and gross rate of mixed elementary, high school and post-secondary enrollment) and real Gross Domestic Product (GDP) per capita adjusted to dollars.

**Licenses – Income:** Income received as a result of the temporary assignment of State rights or as a result of the assignment of administrative rights to third parties, such as enrollments, records and registrations, among others.

**Municipal Category:** A classification of municipalities, sponsored by the SEIP, by means of the indicator known as Municipal Development Index (IDM), which consist of a set of municipal indicators (Human Development Index, Development Level, Energy Index, Telephone Availability, and the presence of water supply through a pipeline) and representative indicators of the municipality institutional performance (Financial Autonomy, Income per capita, Saving Efforts and Investment Achievements).

**Municipal Commissioner:** An individual elected by the Municipal Corporation, in an open Municipal Council, who is in charge of the following: a) looking after community interests and the municipal public good pursuant to the Municipality Act, its regulations, and municipal ordinances; b) submitting any kind of requests to the municipal authorities; c) looking after the respect for human rights, the living community, cultural diversity, biodiversity, and environment; d) contributing to the outreach and social welfare services to vulnerable individuals and sectors; e) supervising the execution of works related to grants given to charitable foundations and organizations of the organized civil society.

**Municipal Corporation:** The municipal deciding body, elected by the people with the maximum authority within the municipality. It is responsible for the drafting and proposing of the general framework for agreements, ordinances, resolutions, and the municipal budget.

**Municipal Development Council:** An initiative of the civil society with an advisory role, consisting of a number of members equal to the council members of the municipality. Members of this Council must act ad-honorem and are appointed from representatives of the community leaders.

**Municipal Economic Activity:** An index measuring the municipal economic base taking into account levels of industrialization, infrastructure, financial activity, and the business and tourism activities of each municipality.

**Municipal Financial Autonomy:** The capacity of the municipality to finance itself. It is defined as the ratio of own revenues to current expenditures, which shows whether the municipality can cover its own operations without external resources.

**National Land Use Planning Council (CONOT):** A deciding, advisory, and consulting body without hierarchies, responsible for the proposing, drafting, and following up of policies, strategies, and plans, as

well as the providing of input, the development of proposals, and the promotion of initiatives related to the execution of programs, projects and actions in land use planning.

**Nontax Revenues:** Revenues from non-tax sources such as user charges rights, fines, fees, royalties, etc. The Municipality Act defines nontax revenues as any revenues received by the municipality as a result of sales, transfers, subsidies, inheritance, grants, fines, surcharges, interest, and credits.

**Operating Income:** All revenues originating from the sale of goods and/or the provision of services representing the social purpose of a municipal unit or program, the management of which is conducted with business or industrial criteria. It also includes income derived from the sale of goods and/or the provision of services, which are not the main activity of the entity, but are part of its regular or related activities.

**Personnel Services:** Operating expenditures used to pay municipal personnel needed for the operation of the institution.

**Port Revenues Transfer (4%):** Income derived from municipalities with a port, provided by the National Port Company as a result of the operation and industrialization of natural resources set forth in the municipal jurisdiction. The distribution is the same as with governmental transfers.

**Public Administration:** The exercise of promoting and managing government affairs aimed at meeting State responsibilities and satisfying community needs. A good public administration is transparent, fair, efficient, participatory and innovative.

**Social Contributions – Expenditures:** Cash and assigned payments made by the municipality units to social security systems in order to provide its employees with the right to be granted social assistance, including pensions.

**Social Contributions – Income:** Any and all revenues received by Public Sector bodies responsible for the management of the social security systems. These come from contributions made by employers, dependent workers and self-employed, which are targeted to ensure social provisions lawfully granted to his/her beneficiaries and dependents. They can be compulsory or voluntary, in cash or in-kind, real or allocated.

**Subsidiarity:** Ensuring that the level of the government closest to the people is the one responsible for the provision of goods and services. If this level is not able to do so for reasons of efficiency and economic reasons, the jurisdiction is up to the level of government immediately above.

**Subsidy:** Current unrequited payments (without any consideration of goods and services) made by the municipalities to enterprises. These can be designed to influence the levels of production or product sale prices.

**Tax Revenue:** Mandatory payments to the Government, arising from the sovereign right of each State to levy taxes, such taxes on income, property, production, sales, etc. The Municipality Act defines Tax Revenues as any revenue from taxes, fees, and contributions.

**Tax:** Taxes are public revenues according to the law, consisting of compulsory monetary payments, imposed unilaterally by a public Administration as a result of the realization of taxable transactions linked to an obligation to contribute as per the law. In most state tax systems there are at least three tax figures: regular taxes, fees, and special contributions.

**Taxpayer Registry:** A registration database of taxable persons that includes all information related to taxpayers and the taxes attributable to him/her/it.

**Term:** For the purposes of this study, the time that must elapse between an intervention and the observation of its expected effect or result. The term can be classified into: short, medium, and long.

- Short Term=** Two years, from one year to the next. Implementations during the current year yield results in the following year. This implies a paradigm shift.
- Medium Term=** From one municipal term of office to the other. This is a five year term. It adds changes in municipal policies and regulations. This implies a validation of changes.
- Long Term=** From ten to fifteen years, including more than two changes of the central administration. It adds changes in national policies and regulations. This implies institutionalization.

**Transparency Commission:** An initiative of the civil society that aims to develop social audits of the municipality. It is the public participation process aimed at monitoring governance processes to ensure the transparent implementation of programs and projects and the effective and efficient provision of public services.

**User Charge:** An amount paid to the municipality for the effective provision of a public service by an individual taxpayer. Taxes are not prices as they are compulsory in nature and, hence, they do not include the sale of goods and services offered in a market by the municipalities.