

# Honduras

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RISK & COMPLIANCE REPORT

DATE: March 2018

<b>Executive Summary - Honduras</b>	
<b>Sanctions:</b>	None
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score) International Narcotics Control Majors List
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b> bananas, coffee, citrus, corn, African palm; beef; timber; shrimp, tilapia, lobster</p> <p><b>Industries:</b> sugar, coffee, woven and knit apparel, wood products, cigars</p> <p><b>Exports - commodities:</b> apparel, coffee, shrimp, automobile wire harnesses, cigars, bananas, gold, palm oil, fruit, lobster, lumber</p> <p><b>Exports - partners:</b> US 40%, Germany 9.7%, El Salvador 6%, Belgium 5.9%, Guatemala 4.5%, Nicaragua 4.1% (2012)</p> <p><b>Imports - commodities:</b> machinery and transport equipment, industrial raw materials, chemical products, fuels, foodstuffs</p> <p><b>Imports - partners:</b> US 44.3%, Guatemala 8.5%, China 6%, El Salvador 5.6%, Mexico 5.5% (2012)</p>	
<b>Investment Restrictions:</b>	

The Honduran government is generally open to foreign investment, with limited restrictions and performance requirements.

Majority ownership by Honduran citizens is required for companies that wish to take advantage of the Agrarian Reform Law, engage in commercial fishing, forestry, or local transportation activities, serve as representatives, agents, or distributors for foreign companies, or operate radio and television stations.

Government authorization is required for both foreign and domestic investments in the following areas:

- Basic health services,
- Telecommunications,
- Generation, transmission, and distribution of electricity,
- Air transport,
- Fishing, hunting and aquaculture,
- Exploitation of forestry resources,
- Agricultural and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974,
- Insurance and financial services,
- Private education services, and
- Investigation, exploration, and exploitation of mines, quarries, petroleum and related substances.

Prohibition of foreign ownership of land within 40 kilometers of international borders and shorelines although Honduran law permits foreign individuals to purchase properties close to shorelines in designated "tourism zones."

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## Section 1 - Background

Once part of Spain's vast empire in the New World, Honduras became an independent nation in 1821. After two and a half decades of mostly military rule, a freely elected civilian government came to power in 1982. During the 1980s, Honduras proved a haven for anti-Sandinista contras fighting the Marxist Nicaraguan Government and an ally to Salvadoran Government forces fighting leftist guerrillas. The country was devastated by Hurricane Mitch in 1998, which killed about 5,600 people and caused approximately \$2 billion in damage. Since then, the economy has slowly rebounded.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Honduras is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Latest FATF Statement - 16 February 2012

The FATF welcomes Honduras' significant progress in improving its AML/CFT regime and notes that Honduras has largely met its commitments in its Action Plan regarding the strategic deficiencies that the FATF had identified in February 2010. Honduras is therefore no longer subject to FATF's monitoring process under its on-going global AML/CFT compliance process. Honduras will work with CFATF as it continues to address the full range of AML/CFT issues identified in its Mutual Evaluation Report, and further strengthen its AML/CFT regime.

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Honduras was undertaken by the Financial Action Task Force (FATF) in 2016. According to that Evaluation, Honduras was deemed Compliant for 13 and Largely Compliant for 17 of the FATF 40 Recommendations.

### Key Findings from latest Mutual Evaluation Report (2016):

#### Risks and General Situation

The high levels of organized crime in Honduras, mainly related to drug trafficking activities, extortion and human trafficking by criminal groups, both national and transnational, especially drug cartels and street gangs or "maras", are the main money laundering (ML) threats.

Moreover, the high levels of corruption among public institutions give this phenomenon a cross-cutting impact for ML and Terrorist Financing (TF) risk, being corruption a threat and a structural factor that contributes to the materiality of ML/TF offenses.

Designated Non-Financial Businesses and Profession (DNFBPs) are especially vulnerable for money laundering purposes given their recent incorporation as obliged subjects and the lack of effective supervision. Besides, an important vulnerability identified is with regard to the

appropriate record keeping and updated data of legal persons and, therefore, legal persons can be used to carry out ML activities.

Evidently, the main risks arise from organized crime. Given this situation, the resources of the Honduran authorities are mainly destined to attack organized crime and the ML that results from it. Meanwhile the terrorism represents a lesser threat for the country. Regarding TF, the risk is perceived as low.

Nevertheless, since 2010, and especially since 2014, the authorities of the country have been issuing regulations and legislations aimed at addressing the detected situations. Additionally, new agencies have been created to fight organized crime, evasion and extortion, as well as inter-institutional agreements have been developed, which shows the commitment and the different strategies being implemented to mitigate the risks identified. Moreover, different bodies have been guided to strengthen international cooperation as a means to fight organized crime.

### **Key Findings**

Honduras has made efforts to identify and understand the ML/TF risks to which it is exposed. The risks identified in the National Risk Assessment (NRA), are, to certain extent, related to the policies defined in previous documents, such as the Vision of the Country 2010-2038 and the Plan of the Nation 2010-2022. However, there are shortcomings that must be addressed in the short term and which are related to the disclosure of the NRA's results and the communication with the private sector, especially regarding DNFBNs. Finally, the national strategy against ML/TF risks should be formalised.

Although there are some inter-institutional cooperation and collaboration agreements among the relevant Honduran agencies, there are still several informal channels that should be structured for adequate coordination. At the same time, some cooperation and coordination mechanisms should be extended to include combating the financing of proliferation of weapons of mass destruction (FPWMD).

The level of risk of terrorism and TF is understood as low by the authorities in Honduras. The current legal system enables Honduras to judge and punish those who commit or attempt to commit such acts.

There are shortcomings in the implementation and supervision of TF preventive measures by DNFBNs and non-profit organizations (NPOs), mainly those related to the compliance with the United Nations Security Council (UNSC) Resolutions that impose sanctions for terrorism and TF.

From a technical compliance and effectiveness point of view, the prevention of and combat against the FPWMD must be developed to reach the minimum compliance levels with the relevant Recommendations.

There is a marked difference between the implementation and knowledge of preventive measures among financial institutions and DNFBNs. Until the recent legislative modifications, DNFBNs had no clear AML/CFT obligations, therefore they did not show any implementation of preventive measures, which affected the effectiveness. Meanwhile, in general terms, it was evident that financial institutions understand their risks and obligations and that mitigation measures implemented are proportionate to their risks.

Honduras has an authorization granting regime for all segments of the financial sector, which includes “fit and proper” tests. Nevertheless, there are shortcomings in the non-financial sector. Effective, proportionate and dissuasive sanctions have been applied to obliged subjects of the financial sector. However, at the time of the on-site visit, DNFBPs had not been supervised and, nor sanctions had been applied to this sector.

Honduras has significant deficiencies regarding the identification of beneficial ownership of legal persons. Information regarding the creation and the operation of the different types of legal persons that can be incorporated in Honduras is not easily accessible. The information is not unified, complete or updated. Moreover, the incorporation of irregular companies is allowed, as well as the transfer of nominative and bearer shares, without greater controls regarding beneficial ownership.

With regard to international cooperation, Honduras has ratified several international instruments regarding the fight against ML/TF, for which different central authorities have been designated depending on the treaty. Despite not having a unique central authority, Honduras has proper statistics regarding the cooperation received and provided, especially with countries of the Central American region. Additionally, the regulation enables international cooperation regarding ML/TF offenses, among others. These laws include provisions that allow the freezing and confiscation of property of people being investigated for such offenses in Honduras. Nevertheless, there are no relevant provisions to share said property with foreign countries.

As regards extradition, the Honduran legal framework enables this type of collaboration for offenses such as drug trafficking, terrorism, organized crime, money laundering, and serving as figurehead. Moreover, several people have been extradited to the United States due to drug trafficking since 2014.

## US Department of State Money Laundering assessment (INCSR)

**Honduras is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.**

### OVERVIEW

Honduras is not a regional or offshore financial center. Money laundering in Honduras continues to stem primarily from significant narcotics trafficking throughout the region, especially by organized crime groups. Human smuggling, extortion, arms smuggling, kidnapping, and public corruption also generate significant amounts of laundered proceeds. Human smuggling fees are regularly paid to smugglers via MSBs.

Honduras still needs to complete implementation of the 2015 revisions to the AML law. During 2017, the National Banking and Insurance Commission (CNBS) began registering some DNFBPs. In 2015, Honduras adopted a national risk assessment (NRA) for money laundering and terrorist financing. Honduras does not have a national AML strategy, but has focused on certain high priority offenses, such as money laundering linked to organized crime. Additionally, the FIU needs to improve its capacity to recognize and deal with complex financial crimes and the analysis of financial intelligence. Honduras, in general, lacks

adequate resources but is improving its capability to conduct complex financial investigations and pursue forfeiture actions.

#### VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Honduras derives from both domestic and foreign criminal activity. The majority of proceeds are suspected to be controlled by local drug trafficking organizations and organized crime syndicates. A significant amount of laundered proceeds passes directly through the formal banking system. Law enforcement has detected large-scale money laundering activities in the automobile and real estate sectors. Money laundering activities have also been identified in remittance companies, currency exchange houses, the construction sector, and trade-based businesses.

The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of citizens of these countries across their respective borders without visas; however, citizens can be subject to immigration or customs inspections. The agreement represents a vulnerability of each country for the cross-border movement of contraband and proceeds of crime.

The country's lack of resources and capacity to effectively and efficiently investigate and analyze complex financial transactions, when combined with corruption within government institutions, continues to contribute to a favorable climate for significant money laundering.

#### KEY AML LAWS AND REGULATIONS

Effective May 28, 2016, the CNBS issued implementing regulations for the 2015 reforms to the AML law; however, additional regulations are necessary to gain full implementation. Honduras has comprehensive KYC and STR regulations. Honduras can exchange information in connection with narcotics investigations and proceedings with the United States under appropriate treaties and conventions.

On May 29, 2017, the CNBS published Circular CNBS No. 014/2017, Minimum Requirements for a Compliance Program for Obligated Entities. The Circular provides guidance to all covered entities on how to detect AML risks and how to develop AML internal procedures and policies.

On June 2, 2017, the CNBS informed the first group of DNFBPs that they had until August 15 to register with CNBS. This group includes those delivering mail, stock, money, and other items; casinos, lotteries, bingos, and other gaming services or establishments; entities involved in the sale, rent, or lease of vehicles, boats, or airplanes; and providers of armored cars or in-home safe-rooms.

Honduras is a member of the GAFILAT, a FATF-style regional body.

#### AML DEFICIENCIES

Honduras lacks a formal, comprehensive national AML/CFT strategy.

Honduras is taking steps to implement a new risk-based focus and has conducted a NRA, which it should make public and communicate to the private sector. AML obligations are new to the non-financial sector and outreach should be conducted, supervision enhanced,

and sanctions issued, where appropriate. CNBS is drafting internal policies and regulations required for the implementation of the AML revisions.

Bearer shares are still legal in Honduras and there is no access to quality beneficial ownership information for Honduran companies; both factors present significant money laundering challenges.

#### ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

FIU staff continue to require training on a number of topics including the financial products available at financial institutions, international standards, analysis of financial data, report writing, relevant Honduran laws, and the analysis of STRs and CTRs. The FIU needs to develop mechanisms that can be used to provide feedback to the regulated entities on filed reports so that submissions contain complete and accurate information. Key players within relevant law enforcement agencies and key agencies should seek better coordination. Honduras is working to create a task force to review submitted STRs.

Although the Public Records Office has initiated a digitalization process of its files at a national level, most of the country's public property records are not digitized and poorly organized. This situation jeopardizes investigations by adding time and increased expenses for one of the most basic aspects of any financial investigation - property searches.

In 2016, the Presidents of Honduras, Guatemala, and El Salvador signed an agreement to jointly fight against organized crime in the region. Under the agreement, the countries formed a tri-national force to fight gang crime. In 2017, the three countries, in coordination with law enforcement in the United States, executed Operation Regional Shield against the MS-13 gang. The countries also have created multiagency groups that will work on the borders of the Northern Triangle.

#### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Honduras conforms with regard to all government legislation required to combat money laundering

#### **EU White list of Equivalent Jurisdictions**

Honduras is not currently on the EU White list of Equivalent Jurisdictions

#### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

#### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

## Offshore Financial Centre

Honduras is not considered to be an Offshore Financial Centre

## US State Dept Narcotics Report 2017 (introduction):

### Introduction

Honduras is a major transit country for cocaine, as well as for some chemical precursors. The United States estimates that approximately 90 percent of the cocaine trafficked to the United States in 2016 first transited through the Mexico/Central America corridor. According to U.S. estimates, the volume of cocaine that transited Honduras to the United States over this period remained approximately the same as in 2015, equating to approximately three to four metric tons (MT) per month. The vast majority of cocaine that transits Honduras arrives via maritime conveyance. In 2016, the U.S. government estimated that the number of aircraft suspected of smuggling cocaine into Honduras decreased by approximately 30 percent from the previous year, to 35 in total. Nevertheless, approximately 80 percent of all suspected drug flights departing from South America first landed in Honduras.

The eastern Caribbean region of Honduras remained a primary landing zone for drug traffickers operating by land and sea. The region suits narcotics trafficking due to its remoteness, limited infrastructure, lack of government presence, and weak law enforcement institutions. Drug transshipment to points north from the Caribbean coast is facilitated by maritime and riverine traffic, subsequent flights north, and overland movement.

Honduras continued to suffer from a high homicide rate in 2016, though the rate has fallen from its peak of 86 per 100,000 people in 2011. The Violence Observatory at the National Autonomous University of Honduras estimated the 2016 murder rate at 59.1 per 100,000 people.

Criminal street gangs such as Mara Salvatrucha (MS-13) and 18<sup>th</sup> Street do not yet appear to be a formal part of the transnational drug logistics chain, except as facilitators of trafficking through Honduras. These gangs are typically involved in local drug distribution, extortion, kidnapping, and human trafficking. Nevertheless, their participation in transshipment leads to an increasing likelihood of entering the drug retail market, as they are often paid in product for their services.

### Conclusion

The Government of Honduras moved forward in 2016 to address longstanding deficiencies in its civilian security and justice institutions. In response, the United States recalibrated its assistance to give added impetus to Honduran government efforts to reform its civilian police force and improve prosecutorial capacity. The Honduran government took steps to disrupt and dismantle drug trafficking organizations, including extraditing high-profile drug traffickers, seizing the assets of leaders of the drug trafficking organizations, and deploying security forces to under-governed parts of the country. The results are visible: rates of homicide, kidnapping, and extortion were down from 2015, and citizens' impressions of the HNP are improving.

## US State Dept Trafficking in Persons Report 2016 (introduction):

Honduras is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Honduras is principally a source and transit country for men, women, and children subjected to sex trafficking and forced labor; to a much lesser extent, it is a destination for women and girls from neighboring countries subjected to sex trafficking. Honduran women and children are exploited in sex trafficking within the country and in other countries in the region, particularly Mexico, Guatemala, El Salvador, Belize, and the United States. LGBTI Hondurans are particularly vulnerable to sex trafficking. Honduran men, women, and children are subjected to forced labor in agriculture, street vending, domestic service, and the informal sector in Honduras, and forced labor in other countries, particularly in Guatemala, Mexico, and the United States. Children from indigenous and Afro-descendant communities, particularly Miskito boys, are vulnerable to forced labor, including on fishing vessels; children living on the streets are vulnerable to sex and labor trafficking. NGOs and the media report that criminal organizations, including gangs, exploit girls in sex trafficking, force children into street begging, and coerce and threaten young males in urban areas to transport drugs, commit extortion, or commit acts of violence, including murder; this occurs primarily in urban areas, but one NGO reported an increase in gang activity in rural areas. During the year, there were continued reports of children being subjected to sex trafficking on the streets of large cities, particularly the economic center of San Pedro Sula, under the guise of street begging or vending. Honduras is a destination for child sex tourists from Canada and the United States. Some Honduran migrants to the United States are subjected to forced labor, forced criminal activity, or sex trafficking en route or upon arrival. Latin American migrants transit Honduras en route to northern Central America and North America, where some are exploited in sex trafficking and forced labor. During the year, there were reports of child sex trafficking victims being brought into prisons and exploited by prisoners, raising concerns over the potential complicity of prison authorities. Overall corruption remained a challenge for law enforcement efforts. Prosecutors reported some local police provided protection to brothel owners or tipped them off about impending raids, and security officials have been involved in child sex trafficking.

The Government of Honduras does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Authorities prosecuted and convicted more sex traffickers, but there were no investigations or prosecutions for suspected cases of forced labor or the recruitment of children for forced criminal activity. For the second year, the government provided a budget to its interagency, multi-stakeholder commission on child trafficking and commercial sexual exploitation (CICESCT), and it developed a national action plan for 2016-2020. The government's "immediate response team" strengthened referral to services for female child sex trafficking victims, but services for other populations remained limited and there were reports that the government re-victimized adult victims by ordering restrictions on their communication and movement while compelled to reside in an NGO shelter. The government did not develop guidelines to identify trafficking victims among vulnerable populations. Authorities demonstrated progress in addressing trafficking-related complicity by convicting one police officer and one military official for purchasing sex acts from child trafficking victims.

## US State Dept Terrorism Report 2009

The Honduran government continued to implement steps in accordance with its 2007 National Security Strategy, which included counterterrorism as an objective, and stressed regional and international cooperation. For example, in November, the Honduran Armed Forces (HOAF) and the Honduran National Police (HNP) took steps towards the creation of a Joint Interagency Task Force. This joint task force should improve inter- agency intelligence cooperation and should decrease illicit trafficking and minimize terrorist threats within the country.

Organized crime and illicit trafficking organizations and networks were strong and potentially ripe for exploitation by terrorists intent on entering and attacking the United States. While there was no conclusive evidence that terrorist groups worked with illicit trafficking organizations, the United States continued to assist the HOAF and HNP with their counterterrorism efforts in order to prevent terrorist groups from exploiting illicit trafficking networks. The Honduran military lacked sufficient resources, and the police and judiciary were spread thin, poorly trained, and susceptible to threats and corruption. In the first half of the year, before a coup d' etat took place, the United States continued to provide the HOAF and HNP with training, equipment, and base construction, which dramatically improved their ability to interdict illicit trafficking and protect the country against terrorist threats. In response to the June 28 coup, however, the U.S. government suspended all counterterrorism training pending restoration of the democratic, constitutional order.

There were no known instances of terrorist organizations using Honduras's financial system to deposit or launder funds. Prior to the coup, Honduran cooperation with the United States on combating terrorist financing was strong. The Honduran Banking and Insurance Commission, instructed by the Ministry of Foreign Affairs, promptly sent freeze orders to the entire regulated financial sector every time the United States amended Executive Order lists. Financial entities, particularly the commercial banks, undertook the requested searches for accounts by terrorist entities. There were no amendments to the Executive Order lists after the coup that required notification of the Honduran government.

There was no indication of terrorist groups using illegal immigration networks. Over the past five years, however, smuggling rings have been detected moving people from East Africa (in particular Somalia in 2009), the Middle East, and Southwest Asia to Honduras or through its territory. Nationals of countries without Honduran visa requirements, especially Ecuador and Colombia, were involved in schemes to transit Honduras, often with the United States and Europe as their final destination. Foreign nationals have successfully obtained valid Honduran identity cards and passports under their own or false identities.

## International Sanctions

None applicable

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	29
World Governance Indicator – Control of Corruption	28

Corruption is a major obstacle for businesses investing in Honduras. All sectors of the economy suffer from rampant corruption. Networks of patronage and clientelism dominate the economy, further deteriorating market competitiveness and impeding foreign investors. The government has a legal anti-corruption framework in place through the Penal Code and the Penal Procedures Code. However, enforcement is lacking, and several cases have revealed widespread impunity. Gifts are illegal, yet the practice is widespread, and the use of bribery is an established part of doing business. **Information provided by GAN Integrity.**

### US State Department

Corruption plays a role in many business dealings in Honduras. U.S. businesses and citizens have found corruption in the public sector and the judiciary to be a significant constraint to successful investment in Honduras. Corruption is pervasive in government procurement, issuance of government permits, real estate transactions (particularly land title transfers), performance requirements, and the regulatory system. The telecommunications and energy sectors have proven particularly problematic.

Both the Millennium Challenge Corporation (MCC) and Transparency International ranked Honduras' control of corruption as poor. For the three MCC indicators, a country must perform better than the majority of its peers in order to receive a passing score (a number greater than 50 percent in the parentheses represents a passing score).

#### Honduras's Other Rankings on Key Corruption Indicators

Measure	Year	Index/Ranking
World Bank Doing Business	2014	127/189
MCC Government Effectiveness	FY 2014	-0.33 (27%)
MCC Rule of Law	FY 2014	-0.71 (4%)
MCC Control of Corruption	FY 2014	-0.37 (15%)

## Corruption and Government Transparency - Report by Global Security

In its 2012 Corruptions Perceptions Index, Transparency International ranked Honduras 133rd out of 176 countries (1 being the least corrupt).

Many U.S. businesses have expressed concern about corruption in Honduras, particularly in the public sector. Some U.S. firms and citizens have found corruption, including in the judiciary, to be a significant concern and a constraint to successful investment in Honduras. Corruption is pervasive in government procurement, issuance of government permits, real estate transactions (particularly land title transfers), performance requirements, and the regulatory system. The telecommunications and energy sectors have proven particularly problematic.

Two codes regulate justice and provide for penalties against corruption: the Penal Procedures Code (PPC) and the Penal Code (PC). In 2002, a reform of the PPC entered into force, changing the criminal judicial system from a traditional written inquisitorial trial system to an adversary, oral, and public trial system. The revised PPC is improving justice and accountability in a number of ways, including increased transparency in the criminal justice system.

Multiple government entities share responsibility for fighting corruption: the Public Ministry, under the direction of the Attorney General (Fiscal General); the Superior Accounting Tribunal (TSC), which brings together the Comptroller General of the Republic (CGR), the Directorate of Administrative Probity (ethics office) and the Office of State Assets under the direction of three members selected by Congress.

In 2011, the government introduced a 4-year inter-institutional transparency and anti-corruption plan (2011-2014), with implementation to be overseen by the Office of the Presidency, which seeks to reform government hiring and procurement, increase civil society's participation in budget processes and institutional mechanisms, and promote social awareness of the impact that corruption has on the country's development. In 2012, the government announced it would seek to send the country's first-ever anticorruption law for Congress' approval in the first quarter of 2013.

Bribery is a criminal act in Honduras and, depending on the degree of the offense, is subject to fines or incarceration. Honduras ratified the United Nations Convention against Corruption in 2005 and is a signatory of the Inter-American Convention against Corruption overseen by the Organization of American States. A bribe to a foreign official is also a criminal act under U.S. law (the Foreign Corrupt Practices Act).

## Section 3 - Economy

Honduras, the second poorest country in Central America, suffers from extraordinarily unequal distribution of income, as well as high underemployment. While historically dependent on the export of bananas and coffee, Honduras has diversified its export base to include apparel and automobile wire harnessing.

Honduras's economy depends heavily on US trade and remittances. The US-Central America-Dominican Republic Free Trade Agreement came into force in 2006 and has helped foster foreign direct investment, but physical and political insecurity, as well as crime and perceptions of corruption, may deter potential investors; about 15% of foreign direct investment is from US firms.

The economy registered modest economic growth of 2.6%-4.0% from 2010 to 2015, insufficient to improve living standards for the nearly 65% of the population in poverty. In 2015, Honduras faced rising public debt but its economy has performed better than expected due to low oil prices and improved investor confidence. The IMF continues to monitor the three-year standby arrangement signed in December 2014, aimed at easing Honduras's poor fiscal position.

### **Agriculture - products:**

bananas, coffee, citrus, corn, African palm; beef; timber; shrimp, tilapia, lobster, sugar, oriental vegetables

### **Industries:**

sugar, coffee, woven and knit apparel, wood products, cigars

### **Exports - commodities:**

coffee, apparel, coffee, shrimp, automobile wire harnesses, cigars, bananas, gold, palm oil, fruit, lobster, lumber

### **Exports - partners:**

US 36%, Germany 8.7%, El Salvador 8.5%, Guatemala 6%, Nicaragua 5.6%, Netherlands 4.1% (2015)

### **Imports - commodities:**

communications equipment, machinery and transport, industrial raw materials, chemical products, fuels, foodstuffs

### **Imports - partners:**

US 35.2%, China 13.6%, Guatemala 9.2%, Mexico 6.6%, El Salvador 5.1% (2015)

## Banking

Capital markets in Guatemala are weak and inefficient, though there has been some consolidation and restructuring as a result of financial reforms approved in 2002. The Guatemalan banking system is comprised of 18 commercial banks, which held an estimated USD 18.3 billion in assets in 2010. The five largest banks control about 79 percent of total assets. In addition, there are 15 non-bank financial institutions specializing in investment operations, two licensed exchange houses, 17 insurance companies, 11 financial guarantors, 7 credit card issuers, 15 bonded warehouses, and 8 offshore banks which, by law, are affiliated with domestic financial groups. The Superintendent of Banks is charged with regulating the financial services industry.

Financial regulations passed by the Guatemalan Congress in April 2002 have increased the scope of supervision and brought local practices more in line with international standards. The 2002 regulations included Banking and Financial Groups Law, a Financial Supervision Law and a Central Bank Law.

The Guatemalan Congress also passed strong anti-money laundering legislation in December 2001. The Financial Action Task Force removed Guatemala from the list of non-cooperating countries in July 2004. Terrorism finance legislation was passed in August 2005. For more information on the banking system please read the subsection Efficient Capital Markets and Portfolio Investment of the Investment Climate Chapter.

## Stock Exchange

Guatemala's capital markets are weak and inefficient. There is no securities regulator, but rather only a registry that lacks regulatory authority. There is one principal commercial exchange (Bolsa Nacional de Valores) that deals almost exclusively in commercial paper, repos and government bonds. A new capital markets law is being drafted by the Guatemalan Central Bank (Banco de Guatemala) and the Superintendence of Banks with technical assistance from the U.S. Treasury and Securities Exchange Commission. Foreign investors are reported to be minority holders of Guatemalan government external debt. There is no market in publicly traded equities, the absence of which raises the cost of capital and complicates mergers and acquisitions. As of November 2010, borrowers faced a weighted average nominal interest rate of 16 percent, with some banks charging up to 92 percent. Foreigners rarely rely on the local credit market to finance investments.

### Executive Summary

The United States is Honduras' most important economic partner, and the government of Honduras continues to strive to improve the investment climate. Yet foreign companies choosing to invest in Honduras still face significant challenges. Honduras' investment climate is hampered by high levels of crime, a weak judicial system, corruption, low educational levels, and poor transportation and other infrastructure. Over 200 U.S. companies operate in Honduras. Many of them have taken advantage of the opportunities and protections available as a result of Honduras' participation in the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). The stock of U.S. foreign direct investment in Honduras is approximately \$750 million. Honduras has made notable improvements in market openness since 2013 as measured by trade freedom, investment freedom, and financial freedom. However, the management of public spending, rule of law concerns, and a high incidence of corruption continue to pose challenges for prospective investors. The 2016 Heritage Economic Freedom Index gave Honduras a score of 57.74, an improvement of 0.3 points from 2015. The World Bank Doing Business 2015 report ranked Honduras 110 out of 189 countries, an improvement of 15 places since the 2013 report.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	112 of 168	<a href="http://transparency.org/cpi2014/results">transparency.org/cpi2014/results</a>
World Bank's Doing Business Report "Ease of Doing Business"	2015	110 of 189	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
Global Innovation Index	2015	113 of 141	<a href="http://globalinnovationindex.org/content/page/data-analysis">globalinnovationindex.org/content/page/data-analysis</a>
U.S. FDI in partner country (\$M USD, stock positions)	2014	\$754 million	<a href="http://www.bea.gov/international/di1usdbal.htm">http://www.bea.gov/international/di1usdbal.htm</a>
World Bank GNI per capita	2014	\$2,270	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

#### Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of \$4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

## 1. Openness To, and Restrictions Upon, Foreign Investment

### Attitude toward Foreign Direct Investment

The United States is Honduras' largest trade and economic partner. U.S. exports to Honduras in 2015 were \$5.2 billion. Honduras' participation in CAFTA-DR has enhanced U.S. export opportunities and diversified the composition of bilateral trade. Substantial intra-industry trade now occurs in textiles and electrical machinery, alongside continued trade in traditional Honduran exports such as coffee and bananas. In addition to liberalizing trade in goods and services, CAFTA-DR includes important disciplines relating to investment, customs administration and trade facilitation, technical barriers to trade, government procurement, telecommunications, electronic commerce, intellectual property rights, transparency, and labor and environmental protection.

Economic growth returned to Honduras in 2010 after a sharp downturn in 2009 due to the effects of international financial and domestic political crises. In 2015, GDP growth rose to 3.6 percent and the rate of inflation was 2.4 percent. Foreign direct investment and domestic investment declined in 2009 but has since recovered. U.S. foreign direct investment (FDI) in Honduras (stock) was \$754 million in 2014 (latest data available), a 2.3 percent decrease from 2013. U.S. direct investment in Honduras is led by manufacturing, finance/insurance, and wholesale trade.

### Other Investment Policy Reviews

The Honduran government is generally open to foreign investment, with limited restrictions and performance requirements. Low labor costs, proximity to the U.S. market, and the Caribbean port of Puerto Cortés make Honduras attractive to investors. At the same time, however, Honduras' investment climate is hampered by high levels of crime, a weak judicial system, corruption, low educational levels, and poor transportation and other infrastructure.

The Constitution of Honduras requires that all foreign investment complement, but not substitute for, national investment. The legal framework for investment in Honduras is provided by the Honduran Constitution, the investment chapter of CAFTA-DR, a self-executing international agreement that takes precedence over most domestic law, and by the portions of the Law for the Promotion and Protection of Investments that are not covered by CAFTA-DR. The Honduran Congress passed this Investment Law in 2011 and the President of Honduras enacted the relevant regulations for the law by executive decree in 2014.

Combined, Honduras' legal obligations guarantee national treatment and most favored nation treatment for U.S. investments in most sectors of the Honduran economy and, compared to earlier legislation, include enhanced benefits in the areas of insurance and arbitration for domestic and foreign investors. CAFTA-DR has equal status in Honduras with the Constitution in most sectors of the Honduran economy.

### Laws/Regulations on Foreign Direct Investment

The Investment Law requires that all local and foreign direct investment be registered with the Investment Office in the Secretariat of Industry and Commerce. Upon registration, an investor is issued investment certificates, which provide investment protection under the law and guarantee investors' international arbitration rights, further provided for under CAFTA-DR. CAFTA-DR establishes a dispute settlement mechanism, as detailed in the Investment Chapter. An investor who believes the government has not honored a substantive obligation

under CAFTA-DR may request binding international arbitration. Proceedings and documents submitted to substantiate the claim are generally open to the public.

Additionally, government authorization is required for both foreign and domestic investments in the following areas:

- Basic health services,
- Telecommunications,
- Generation, transmission, and distribution of electricity,
- Air transport,
- Fishing, hunting and aquaculture,
- Exploitation of forestry resources,
- Agricultural and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974,
- Insurance and financial services,
- Private education services, and
- Investigation, exploration, and exploitation of mines, quarries, petroleum and related substances.

#### *Business Registration*

In March 2015, the government of Honduras implemented the online National Investment Register (Foreign and National) as a starting point for creating a one-stop investment facility; [www.prohonduras.hn](http://www.prohonduras.hn) / [proteccion.inversionista@prohonduras.hn](mailto:proteccion.inversionista@prohonduras.hn). The government has introduced a new form and streamlined the process for registration of investments, including both foreign and domestic investors. Firms who formalize a business still must go to a municipal or chamber of commerce window to register the business and handle other needed permits. In May 2015, Honduras set up three additional one-stop facilities covering the south, center and east of the country, building on the success of existing municipal-level windows in San Pedro Sula and Tegucigalpa.

More generally, the Honduran government has simplified administrative procedures for establishing a company in recent years. According to the 2016 World Bank Doing Business Report, the average time required for starting a business in Honduras is 14 days and requires 12 procedures.

#### *Industrial Promotion*

In February 2016, the office of the Honduran President announced Honduras 20/20, the Honduran government's joint effort with the private sector to promote economic growth. The Honduran government and private sector representatives worked together to create a strategy to spur investment and job creation in specific sectors, with assistance from the consulting firm McKinsey & Company. The strategy calls for the creation of 600,000 jobs over five years, with an initial focus on the textile, manufacturing, business services, and tourism industries. The strategy will also encompass the agriculture and housing sectors at a later

stage. To implement the strategy, the government has created an office called the Transformation Unit that will coordinate public and private sector efforts to implement strategy. The implementation efforts will begin with 40 specific initiatives that have already been identified. The private sector supporters of Honduras 20/20 have created a \$50 million fund to finance its implementation.

Separately, the Honduran mining sector has been re-opened to foreign investment, but challenges remain. The Honduran Congress passed a mining law in 2013 which allowed foreign mining companies to receive mining concessions. The law's implementing regulations have been approved and the government has begun to issue permits. Some foreign mining companies have experienced unexpected and lengthy delays in review of their mining concession applications, however. The sector had been closed to new investment since 2005, following a Supreme Court decision striking down portions of a 1999 mining law.

#### Limits on Foreign Control and Right to Private Ownership and Establishment

The Investment Law does not limit foreign ownership of businesses, except for those specifically reserved for Honduran investors, e.g., small firms with capital less than 150,000 lempiras (HNL), which is about \$7,000. For all investments, at least 90 percent of a company's labor force must be Honduran, and at least 85 percent of the payroll must be paid to Hondurans. Majority ownership by Honduran citizens is required for companies that wish to take advantage of the Agrarian Reform Law, engage in commercial fishing, forestry, or local transportation activities, serve as representatives, agents, or distributors for foreign companies, or operate radio and television stations.

Investors have the right to freely establish, acquire and dispose of interests in business enterprises at market prices under freely negotiated conditions and without government intervention. Private enterprises compete on an equal basis with public enterprises with respect to access to markets, credit and other business operations.

Foreign investors have the right to own property, subject to certain restrictions established by the Honduran Constitution and several laws relating to property rights. This guarantee includes the right to free acquisition, profit, use, disposition and any other right attributable to property ownership. The major exception is the constitutional prohibition of foreign ownership of land within 40 kilometers of international borders and shorelines, although Honduran law permits foreign individuals to purchase properties close to shorelines in designated "tourism zones."

#### Privatization Program

The government of Honduras does not have an overall privatization program for state-owned enterprises. However, it is trying to increase private sector participation and ownership in its electric system. As part of the International Monetary Fund (IMF) December 2014 standby arrangement, the government of Honduras was required to reform the state-owned energy company ENEE and create an independent Electric Energy Regulatory Commission. The reformed ENEE will become a holding company with four components: 1) a distribution company with an operations subcontractor supported by a trust agreement with Banco Ficohsa; 2) a concession for the transmission network supported by a trust agreement with Banco Atlántida; 3) a not-for-profit organization with public and private ownership that will control and monitor the overall electrical system; and 4) a privatized generation company that owns all existing ENEE generating facilities.

## Screening of FDI

There is no screening or approval process specific to foreign direct investments in Honduras. Foreign investors are subject to the same requirements for environmental and other regulatory approvals as domestic investors.

## Competition Law

The Commission for the Defense and Promotion of Competition (CDPC) is the Honduran government agency that reviews proposed transactions for competition-related concerns. Honduras passed its Competition Law, which established the commission, in 2005 as part of its effort to implement of CAFTA-DR. The Honduran Congress appoints the members of the CDPC, which functions as an independent regulatory commission.

## 2. Conversion and Transfer Policies

### Foreign Exchange

Article 10.8 of CAFTA-DR ensures the free transfer of funds related to a covered investment. Local financial institutions freely exchange U.S. dollars and other foreign currencies. Foreigners can open bank accounts with a valid passport. For deposits exceeding the maximum deposits specified for different account types (corporate or small-medium enterprises), documentation verifying the fund's origin is required.

The Investment Law guarantees foreign investors access to foreign currency needed to transfer funds associated with their investments in Honduras.

This includes:

- Imports of goods and services necessary to operate,
- Payment of royalty fees, rents, annuities and technical assistance, and
- Remittance of dividends and capital repatriation.

### *Remittance Policies*

The Investment Law guarantees investors the right to remit their investment returns and also, if they liquidate their investments, to remit the principal capital invested. Foreign investors that choose to remit their investment proceeds from Honduras do so through foreign exchange transactions at Honduran banks or foreign banks operating in Honduras. These exchange transactions are subject to the same foreign exchange process and regulation as other transactions.

In 2011, the Central Bank of Honduras (BCH) replaced the de facto fixed exchange rate that had been in place since 2005 with a crawling peg that allows the lempira to fluctuate by 7 percent against the U.S. dollar in either direction per year. The BCH mandated that the crawling peg is subject to the further restriction that any daily price be no greater than 100.075 percent of the average for the prior 7 daily auctions. This secondary restriction limits devaluation to a maximum of approximately 4.8 percent annually (assuming the maximum devaluation daily). As of March 2015, the exchange rate is HNL 21.8979 to the U.S. dollar, according to data from the Central Bank of Honduras.

The Central Bank uses an auction system to regulate the allocation of foreign exchange. Regulations governing the auction system establish the following:

- The base price is established every five auctions according to the differential between the domestic inflation rate and the inflation rate of the main commercial partners of Honduras;
- The procedure to determine the base price is set by the Central Bank's Board of Directors;
- The Board of Directors establishes through resolutions the exchange commission to be charged by the Central Bank and the exchange agencies in their foreign exchange transactions;
- Individuals and corporate bodies can participate in the auction system for dollar purchases, either by themselves or through an exchange agency expressing the offered price in lempiras with a maximum of four decimals. The offers can be no less than \$10,000/ HNL 209,600, not more than \$300,000/ HNL 6,288,000 for individuals, and cannot be more than \$1.2 million/ HNL 25,152,000 for corporations.

Additional information on the Central Bank's exchange system is available at <http://www.bch.hn>. To date, the U.S. Embassy in Honduras has not received complaints from individuals with regard to converting or transferring funds associated with investments.

### **3. Expropriation and Compensation**

The Honduran government has the authority to expropriate property for purposes of land reform or public use. The National Agrarian Reform Law provides that idle land fit for farming can be expropriated and awarded to indigent and landless persons.

Impoverished farmer groups sometimes invade or illegally occupy land owned by private companies and then file for the land under the Agrarian Reform Law with the Honduran National Agrarian Institute (INA). If the land is idle and fit for farming, the government can declare it expropriated. In 2013, the government passed legislation regarding recovery and reassignment of concessions on underutilized government assets. Both local and foreign firms have expressed concerns that the law does not specify how the government will determine whether land is underutilized. The government has not published any implementing regulations for the law, nor has the government indicated any plans to use the law against any private sector firm.

While government expropriation of land owned by U.S. companies is rare, disputes related to land seizure actions by squatters occur for both Honduran and non-U.S. foreign landowners, especially in agricultural areas. These occupations have sometimes turned violent, especially in the Bajo Aguan region in the department of Colón. Although several cases were resolved in 2012 with the help of Honduran government-brokered negotiations, many landowners have found pursuing legal avenues to be costly, time consuming, and legally inconclusive. The CAFTA-DR agreement contains provisions in the Investment Chapter designed to protect foreign investors and their investments. Section 10.7 states that no party may expropriate or nationalize a covered investment either directly or indirectly. There are limited public purpose exceptions and the treaty provisions require the expropriating government to pay prompt and adequate compensation.

Compensation for land expropriated under the Agrarian Reform Law, when awarded, is to be paid partly in cash and partly in 15-, 20- or 25-year Honduran government bonds. The portion to be paid in cash cannot exceed \$1,000 if the expropriated land has at least one building; it cannot exceed \$500 if the land is in use but has no buildings; if the land is not in use, compensation will be paid entirely in 25-year government bonds.

#### **4. Dispute Settlement**

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

CAFTA-DR provides dispute settlement procedures between the United States and Honduras. CAFTA-DR establishes a dispute settlement mechanism, as detailed in the Investment Chapter. An investor who believes the government has not honored a substantive obligation under CAFTA-DR may request binding international arbitration. Proceedings and documents submitted to substantiate the claim are generally open to the public. The agreement provides basic protections, such as nondiscriminatory treatment, limits on performance requirements, the free transfer of funds related to an investment, protection from expropriation other than in conformity with customary international law, a minimum standard of treatment, and the ability to hire key managerial personnel regardless of nationality.

Honduras' Conciliation and Arbitration Law (Decree 161-2000) encourages arbitration and clarifies the procedures under which it takes place. In that same year, the Chambers of Commerce and Industry in Tegucigalpa and San Pedro Sula established Centers for Conciliation and Arbitration. The Investment Law permits investors to request arbitration directly, eliminating the previous requirement to include an arbitration clause in investment contracts. Arbitration and conciliation are generally considered swifter and more cost-effective means of resolving disputes between commercial entities, and there may be the additional advantage that the arbitrator or mediator may have specialized expertise in the technical area involved in the dispute.

Tegucigalpa Chamber of Industry and Commerce – Center for Conciliation and Arbitration: <https://www.ccit.hn/cca/>

San Pedro Sula Chamber of Industry and Commerce – Center for Conciliation and Arbitration: <http://www.ccichonduras.org/es/?p=1571>

#### **Bankruptcy**

Companies that default in payment of their obligations in Honduras can declare bankruptcy. A Honduran court must ratify a bankruptcy in order for it to take effect. These cases are regulated by the Commerce Code.

The judicial ruling that declares the bankruptcy of the company establishes the value of the assets, the recognition and classification of the credits, the procedure for the sale of assets and the schedule for the payment of the obligations, in the case that it is not possible for the company to continue its operations. The ruling must be published in The Gazette. The liquidation of companies is always a judicial matter, except in the case of banking institutions which are liquidated by the National Banking and Insurance Commission.

Any creditor or the company itself may initiate the liquidation procedure, which is generally a civil matter. The Judge appoints a liquidator to execute the procedure. A mechanism that a company has to prevent bankruptcy is to request a suspension of payments from the judge.

If approved by the judge and the creditors, the company is able to reach an agreement with its creditors that allows the same administrative board to maintain control of the company.

A company may be prosecuted for fraudulently declaring bankruptcy in the case that the administrative board or shareholders withdraw their assets before the declaration, alter accounting books making it impossible to determine the real situation of the company, or favor certain creditors granting them benefits that they would not be entitled to otherwise.

#### Investment Disputes

Resolving investment disputes is often difficult in Honduras, due primarily to an outdated commercial code and a weak judicial system. The Honduran Commercial Code, which was enacted in 1950, is the main legislation that regulates the operations of businesses in the country. The application of the Commercial Code and its regulations falls under the jurisdiction of the Honduran civil court system.

The Civil Procedures Code (CPC), which entered into force in 2010, introduced the use of open, oral arguments for adversarial procedures. The CPC provides for more effective protection of commercial transactions, property rights, and land tenure, as well as a more efficient process for the enforcement of rulings issued by foreign courts.

Despite these codes, U.S. claimants complain about the lack of transparency and the slow administration of justice in the courts. There are also complaints of favoritism, external pressure and bribes within the judicial system. U.S. firms have had difficulty navigating the legal system. Many U.S. citizens also have complained about the quality of legal representation they receive from Honduran attorneys.

#### International Arbitration

As noted above, an investor from a CAFTA-DR country who believes the government has not honored a substantive obligation under CAFTA-DR may request binding international arbitration.

#### *ICSID Convention and New York Convention*

Honduras is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention). Honduras has ratified the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

#### Duration of Dispute Resolution – Local Courts

Resolving an investment or commercial dispute in the local courts in Honduras is a lengthy process, according to foreign investors in Honduras. Foreign investors report that resolving a dispute typically involves multiple appeals and decisions at different levels of the Honduran judicial system. Each decision can take months or years, and it is usually not possible for the parties to predict the time required to obtain a decision. Final decisions from Honduran courts or from arbitration panels often require subsequent enforcement from lower courts to take effect, requiring additional time. Foreign investors frequently prefer to resolve disputes with suppliers, customers, or partners out of court whenever such a resolution is possible.

### **5. Performance Requirements and Investment Incentives**

## WTO/TRIMS

CAFTA-DR does not permit Honduras to grant new customs duty waivers or expand existing waivers that have export performance requirements. Furthermore, the Investment Law guarantees to all foreign investors the freedom to export and import, and eliminates the requirement of prior administrative permits and licenses, except for statistical registries and customs procedures.

Under CAFTA-DR, Honduras granted U.S. service suppliers substantial access to its services market, including financial services. Application procedures for service suppliers in all sectors are generally simple, clear and non-discriminatory. Honduras' service sector is widely accessible to foreign companies as evidenced by U.S. companies' participation in the Honduran banking, insurance, and accounting markets. In both the banking and insurance sectors, foreign companies generally operate on equal footing with local companies as long as the foreign company establishes a branch or subsidiary in Honduras. However, there are restrictions on cross-border services and offshore operations. Insurance may not be offered on a cross-border basis, and a foreign bank wishing to operate offshore must establish a representative office in Honduras, which entails cumbersome reporting requirements and procedures. Furthermore, a Honduran branch of a foreign bank may only operate based on its capital in Honduras, not on its global or regional capital.

## Investment Incentives

The Tourism Incentives Law offers tax exemptions for national and international investment in tourism development projects. The law provides income tax exemptions for the first 10 years of the project and permits the duty-free import of goods needed for the project, including publicity materials. To receive benefits, a business must be located in a designated tourism zone to qualify for tax exemptions and duty-free status. Restaurants, casinos, nightclubs and movie theaters and certain other businesses are not eligible for incentives under this law. Foreigners or foreign companies seeking to purchase property exceeding 3,000 square meters in size for tourism or other development projects in designated tourism zones must present an application to the Honduran Tourism Institute at the Ministry of Tourism. In addition to providing the required personal information, the potential buyer must also prove that a contract to buy a specific property exists and that the project is registered with the Honduran Ministry of Tourism. The buyer must also present feasibility studies and plans about the proposed tourism or economic development project.

## *Research and Development*

While the Honduran government encourages foreign and domestic investment in Honduras, it does not provide any subsidies specific to research and development investments.

## Performance Requirements

The Honduran government encourages foreign investors to hire locally and to make use of domestic content, especially in manufacturing and agriculture. Investment projects that contribute to employment growth, either directly or indirectly, are more likely to garner government support. U.S. investors in Honduras have not reported any instances in which the government has imposed performance or localization requirements on U.S. investments.

## Data Storage

The Honduran government and courts can require foreign and domestic investors that operate in Honduras to turn over data for use in criminal investigations or civil proceedings. Honduran law enforcement, prosecutors, and civil courts have the authority to make such requests.

## **6. Protection of Property Rights**

### *Real Property*

Secured interests in property, both movable and real, are recognized under Honduran law. The Chamber of Commerce and Industry of Tegucigalpa (CCIT) manages the national property registry. Honduras' secured transactions law gives a concession to the CCIT to administer the registry.

Inadequate land title procedures have led to numerous investment disputes involving U.S. nationals who are landowners. Title insurance is not widely available in Honduras and approximately 80 percent of the privately-held land in the country is either untitled or improperly titled. Resolution of disputes in court often takes years. There have been claims of widespread corruption in land sales, deed filing, and dispute resolution, including claims against attorneys, real estate companies, judges, and local officials. Although some progress has been achieved, particularly in the Bay Islands, the property registration system remains unreliable and represents a major constraint on investment. In addition, a lack of implementing regulations leads to long delays in the awarding of titles in some regions.

### *Intellectual Property Rights*

The legislative framework for protection of intellectual property rights (IPR), which includes the Honduran copyright law and its industrial property law, is generally adequate, but laws are often not effectively implemented. In these areas, Honduras largely complies with the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement of the World Trade Organization (WTO). However, the illegitimate registration of well-known trademarks has been a problem. Honduran law protects data exclusivity for a period of five years, and protects process patents, but it does not recognize second-use patents. The Property Institute (IP) and Public Ministry handle protection and enforcement of intellectual property rights.

CAFTA-DR Chapter 15 on Intellectual Property Rights further provides for the protection and enforcement of a range of intellectual property rights, which are consistent with U.S. and international standards as well as with emerging international standards of IPR protection and enforcement. There are also provisions on deterrence of piracy and counterfeiting. Additionally, CAFTA-DR provides authorities the ability to confiscate pirated goods and investigate intellectual property cases on their own initiative.

The Honduran legal framework provides deterrence against piracy and counterfeiting by, for example, requiring the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them. The law also provides for statutory damages for copyright and trademark infringement, to ensure that monetary damages can be awarded even when losses associated with an infringement are difficult to assign.

### *Resources for Rights Holders*

A list of local attorneys is available at <http://honduras.usembassy.gov/listattorneys.html>.

The Honduran-American Chamber of Commerce works with U.S. and Honduran companies that encounter commercial challenges, including intellectual property rights issues. AmCham can be contacted through its Web site: <http://www.amchamhonduras.org/>.

## **7. Transparency of the Regulatory System**

CAFTA-DR requires that proposed regulations that could impact businesses or investments be published for public comment prior to passage. The Secretariat of Economic Development sometimes publishes draft regulations on its website. However, the Honduran government does not routinely publish regulations before they enter into force and there is no formal mechanism for providing proposed regulations to the public for comment. The lack of a formal notification process prevents most non-governmental groups, including foreign companies, from commenting on proposed regulations.

Regulations must be published in the official government Gazette in order to enter into force. Honduras lacks an indexed legal code, and lawyers and judges must maintain and index the publication of laws on their own. Procedural red tape to obtain government approval for investment activities is very common. Foreign market participants who are represented locally and are members of major business organizations essentially have access to the same information as their Honduran counterparts.

Some U.S. investors have experienced long waiting periods for environmental permits and other regulatory and legislative approvals. Sectors in which U.S. companies frequently encounter problems include infrastructure, telecoms, mining and energy. Generally, the regulatory requirements are complex and lengthy, and may be influenced by political factors, in addition to potentially requiring Congressional approvals if the time duration exceeds the Presidential term of four years.

The Honduran government's eRegulations Web site makes information on Honduran regulations available online. This site may be a useful resource for prospective investors: <http://honduras.eregulations.org>.

## **8. Efficient Capital Markets and Portfolio Investment**

There are no government restrictions on foreign investors' access to local credit markets. However, the local banking system generally extends only limited amounts of credit. Local banks should not be considered a significant resource for start-up capital for new foreign ventures unless they use specific business development credit lines made available by bilateral or multilateral financial institutions, such as the Central American Bank for Economic Integration.

There are a limited number of credit instruments available in the local market. The only security exchange operating in the country is the Central American Securities Exchange (BCV) in Tegucigalpa (<http://www.bcv.hn>), but investors should exercise caution before buying securities listed on the BCV. The Central American Securities Exchange is supervised by the National Banking and Insurance Commission (CNBS). Instruments that theoretically can be traded include bankers' acceptances, repurchase agreements, short-term promissory notes, Honduran government private debt conversion bonds and land reform repayment bonds. However, in practice, the market is almost completely composed of short- and medium-term government securities, and no formal secondary market for these bonds exists. A few banks have placed fixed rate and floating rate notes which have extended out

to 3 years in maturity, but outside of the banks' issuances the private sector does not sell debt or corporate stock on the exchange. Any private business is eligible to trade its financial instruments on the exchange, and firms that participate are subject to a rigorous screening process, including public disclosure and ratings by a recognized rating agency. Historically, traded firms generally have had economic ties to the different business/financial groups represented as shareholders of the exchange, which has led to lax risk management practices and an enduring loss of public confidence in the institution.

#### Money and Banking System, Hostile Takeovers

The Honduran financial system is comprised of commercial banks, state-owned banks, savings and loans institutions, and financial companies. There are currently 17 commercial banks operating in Honduras of which 10 have majority foreign ownership. There is no off-shore banking in Honduras.

### **9. Competition from State-Owned Enterprises**

Most state-owned enterprises are public utilities, including telephone, electricity, and water companies as well as commercial ports.

The main Honduran telephone company, Hondutel, is state-owned. Yet other telecommunications firms operate in Honduras through contracts with Hondutel. Under this program, eight foreign and domestic carriers have registered with Honduras's regulatory body, Conatel, as sub-contractors for Hondutel fixed telephony services. Although the elimination of Hondutel's legal monopoly was a step towards liberalization of the telecom sector, a legal framework through which foreign companies can obtain licenses and concessions to provide long distance and international dialing has not yet been established. Investors remain unsure of whether they may legally establish themselves as fully independent telecommunication service providers. Currently, all contract operators must request a license from the regulator and then sign a contract with Hondutel for interconnection. Hondutel has not signed a new contract operator since 2009. Cellular telephone services are open for a joint venture, but not to full private ownership. Hondutel explored the partial privatization of its mobile business in December 2012 but did not complete the process.

The Government of Honduras is seeking a strategic partner to help it restructure Hondutel. Once the strategic partner is identified, a joint venture will be established with the private investor.

Although most electricity generation in Honduras is in private hands, the state-owned National Electric Energy Company (ENEE) is undergoing a reform process and will lose its monopoly over transmission, distribution, and commercialization. Beginning in 2016, a distribution contractor will take over management of ENEE's distribution system with a goal of reducing losses, increasing collections, and upgrading the system with smart meters. ENEE hopes to find a transmission system operator beginning in 2017. ENEE controls most hydroelectric generation, which accounts for about one-third of total capacity. The remaining power generation comes from diesel and bunker fuel oil plants. Although ENEE had been losing money for years, it succeeded in virtually eliminating its financial losses in 2015 thanks to lower fuel prices and staff cuts. Through the reform process and with help of outside contractors, ENEE plans to make investment in transmission lines and other infrastructure as well as improvements to its collection and internal controls.

The government has brought additional renewable power onto the grid, mainly from new hydroelectric and solar projects. The government of Honduras is winding down these incentive programs as the cost of integrating variable renewable energy projects become clear. By 2014, the National Congress had approved more than 80 contracts between ENEE and private producers for almost 2000 megawatts of new clean energy, although many of these projects are unlikely to be built. Of the 2000 megawatts, approximately 400 megawatts of new solar capacity came on-line in 2015. Additionally, 200-300 megawatts of other renewable/non-renewable generation will be built in the short-term. Many businesses are opting to install their own on-site power generation systems to supplement or substitute for power from ENEE due to high costs and uncertainty about the semi-privatization process.

Honduran law grants municipalities the right to manage water distribution themselves and to grant concessions to private enterprises. San Pedro has granted a 30-year concession in 2013 to a private company. The municipalities of Puerto Cortés and Choloma have also created public-private partnerships. The state water authority National Autonomous Aqueduct and Sewer Service (SANAA) still manages Tegucigalpa's water distribution.

The Honduran National Port Company (ENP) is the state-owned organization that oversees port management at all four of the country's government operated maritime ports. These ports are Puerto Cortés, La Ceiba, Puerto Castilla, and San Lorenzo. The Honduran government has privatized the operation of Honduras' principal port, Puerto Cortés. In a competitive bidding process, the government awarded concessions for private companies to operate its container and bulk shipping facilities. Central American Port Operators (OPC) and Maritime Ports of Honduras (PMH) won the 30-year concessions for container and bulk shipping operations, respectively. Both companies are in the process of expanding and modernizing the port's terminal and storage facilities.

#### Sovereign Wealth Funds

Honduras does not have a sovereign wealth fund.

### **10. Responsible Business Conduct**

Awareness of the importance of responsible business conduct is growing among both producers and consumers in Honduras. An increasing number of local and foreign companies operating in Honduras include conduct-related responsibility practices in their business strategies.

The Honduran Corporate Social Responsibility Foundation (FUNDAHRSE) was established in 2003 and is successfully leading efforts to promote transparency in the business climate and to provide the Honduran private sector, particularly small- and medium-sized businesses, with the skills to engage in responsible business practices. FUNDAHRSE's members can apply for the foundation's "CSR Enterprise" seal for exemplary responsible business conduct involving activities in health, education, environmental, codes of ethics, employment relations, and responsible marketing.

Responsible business conduct regarding the environment and outreach to local communities are especially important to the success of investment projects in Honduras. Major foreign investment projects in Honduras have stalled or encountered difficulties because of community opposition to their environmental impact. If an investment project does not observe environmental standards, it can lead to community or political opposition.

Successful foreign investors in Honduras often allocate significant time and money to conduct environmental assessments and to engage in related community outreach from the early stages of a project.

### 11. Political Violence

In the country as a whole, levels of crime and violence are high. Crime and violence represent an added cost and constraint on investment. Please read the latest travel warning, located on the State Department website:

[http://travel.state.gov/travel/cis\\_pa\\_tw/tw/tw\\_6007.html](http://travel.state.gov/travel/cis_pa_tw/tw/tw_6007.html)

### 12. Corruption

The Honduran government stepped up its efforts in 2015 to reduce endemic public sector corruption in the wake of anticorruption protests. In late spring and early summer 2015, generally peaceful protests around the country – some as large as 25,000 people – called for action against corruption and impunity and urged the government of Honduras to agree to the installation of a UN commission modeled on the International Commission against Impunity in Guatemala (CICIG). In response, President Hernandez offered an alternate plan that Honduras and the OAS have adapted and expanded into the Mission Against Corruption and Impunity in Honduras (MACCIH). President Hernandez signed the MACCIH agreement with OAS Secretary General Luis Almagro in Washington in January 2016, and the MACCIH arrived in Honduras in April to begin establishing its operations.

Yet corruption continues to play a role in many business dealings in Honduras. U.S. businesses and citizens have found corruption in the public sector and the judiciary to be a significant constraint to successful investment in Honduras. Corruption is pervasive in government procurement, issuance of government permits, real estate transactions (particularly land title transfers), performance requirements, and the regulatory system. The telecommunications and energy sectors have proven particularly problematic.

Both the Millennium Challenge Corporation (MCC) and Transparency International ranked Honduras' control of corruption as poor. For the three MCC indicators, a country must perform better than the majority of its peers in order to receive a passing score (a number greater than 50 percent in the parentheses represents a passing score).

#### Honduras's Rankings on Key Corruption Indicators

Measure	Year	Index/Ranking
TI Corruption Index	2015	31.0/100, 112 of 168
World Bank Doing Business	June 2015	110/189
MCC Government Effectiveness	FY 2016	-0.34 (19 percent)
MCC Rule of Law	FY 2016	-0.56 (26 percent)
MCC Control of Corruption	FY 2016	-0.27 (26 percent)

The United States Foreign Corrupt Practices Act (FCPA) makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any

person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/>

The U.S. government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

#### *UN Anticorruption Convention, OECD Convention on Combatting Bribery*

UN Convention: Honduras is a member of the UN Anticorruption Convention, which entered into force on December 14, 2005. The UN Convention is the first global comprehensive international anticorruption agreement and requires countries to establish criminal penalties for a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery.

OECD Convention on Combatting Bribery: Honduras is a member of the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation.

Free Trade Agreements: While it is U.S. government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. Honduras has a free trade agreement in place with the United States, the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which came into force in 2006. The most recent free trade agreements (FTAs) negotiated now require trading partners to criminalize "active bribery" of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic "passive bribery" (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>.

Local Laws: U.S. firms should familiarize themselves with local Honduran anticorruption laws, and, where appropriate, seek in-country legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel. It is illegal to bribe a Honduran public official. Bribery is a criminal act and depending on the degree of the offense, is subject to fines or incarceration. Honduran regulations also prohibit government and public officials from soliciting bribes.

Two codes establish penalties for corruption in Honduras: the Penal Procedures Code (PPC) and the Penal Code (PC), which allows for an adversarial-style, oral, and public trial system. The PPC aims to improve the administration of justice and accountability in a number of ways, including increased transparency in the criminal justice system.

Multiple Honduran government entities share responsibility for fighting corruption: the Public Ministry, under the direction of the Attorney General (Fiscal General); the Superior Accounting Tribunal (TSC), which brings together the Comptroller General of the Republic (CGR), the Directorate of Administrative Probity (ethics office) and the Office of State Assets led by three members selected by Congress.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues in Honduras. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents locally in Honduras.

The U.S. Foreign and Commercial Service in Honduras can be reached at the U.S. Embassy in Tegucigalpa, Honduras (<http://export.gov/honduras/ContactUs/index.asp>).

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) Foreign Corrupt Practices Act (FCPA) Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at <http://www.justice.gov/criminal/fraud/fcpa>.

Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Commerce, U.S. Department of Commerce, Website, at [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html). More general information on the FCPA is available at the Websites listed below.

#### *Resources to Report Corruption*

Companies that face corruption-related challenges in Honduras may wish to contact one or more of the following organizations that fight corruption in Honduras to request assistance.

Public Ministry  
Yuri Dagne Nuñez  
Assistant to the Director of Prosecutors  
[consultoriaexternamp@gmail.com](mailto:consultoriaexternamp@gmail.com)

The Public Ministry is the Honduran government agency responsible for criminal prosecutions, including corruption cases.

Association for a More Just Society (ASJ)  
Audrey Arguijo  
Residencial El Trapiche, 2da etapa Bloque B, Casa #25  
+504-2235-2291  
[info@asjhonduras.com](mailto:info@asjhonduras.com)

The Association for a More Just Society is a nongovernmental Honduran organization that works to reduce corruption and increase transparency. It is an affiliate of the international nongovernment organization Transparency International.

National Anti-Corruption Council (CNA)  
Alejandra Ferrera  
Executive Board Assistant  
Colonia San Carlos, calle República de México  
504-2221-1181  
[aferrera@cna.hn](mailto:aferrera@cna.hn)

The National Anti-Corruption Council is a Honduran civil society organization that works to fight corruption. Its members are a coalition of Honduran business groups, labor groups, religious organizations and human rights groups.

Problems, including alleged corruption by the Honduran government or competitors encountered by U.S. companies, can be brought to the attention of appropriate U.S. government officials at the embassy:

Attention: Economic Section  
U.S. Embassy Tegucigalpa, Honduras  
Avenida La Paz  
Tegucigalpa M.D.C., Honduras  
Telephone Numbers: (504) 2236-9320, 2238-5114  
Fax Number: (504) 2236-9037

Companies can also report corruption through the Department of Commerce Trade Compliance Center "Report a Trade Barrier" Website at:  
[http://tcc.export.gov/Report\\_a\\_Barrier/index.asp](http://tcc.export.gov/Report_a_Barrier/index.asp).

Additional useful resources for individuals and companies regarding combating corruption in global markets include the following:

- U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at:  
<http://www.justice.gov/criminal/fraud/fcpa>

- See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI), which measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009](http://www.transparency.org/policy_research/surveys_indices/cpi/2009)
- Transparency International also publishes an annual Global Corruption Report which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>
- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See <http://info.worldbank.org/governance/wgi/index.asp>
- The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://data.worldbank.org/data-catalog/BEEPS>
- The World Economic Forum publishes the Global Enabling Trade Report, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/s?s=global+enabling+trade+report>.
- Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at <http://www.state.gov/g/drl/rls/hrrpt/>
- Global Integrity, a nonprofit organization, publishes its annual Global Integrity Report, which provides indicators for 106 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>

General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html)

### **13. Bilateral Investment Agreements**

A Bilateral Investment Treaty (BIT) between the United States and Honduras entered into force in 2001. The U.S.-Honduras Treaty of Friendship, Commerce and Consular Rights (1928) provides for Most Favored Nation treatment for investors of either country. The U.S. and Honduras also signed an agreement for the guarantee of private investments in 1955 and an agreement on investment guarantees in 1966. Most provisions of these agreements have been superseded by CAFTA-DR.

Provisions for investment are included in free trade agreements between Honduras and Canada, Chile, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, the Dominican Republic, and the European Union. These agreements have superseded many of the provisions of Honduras' separate Bilateral Investment Treaties with these countries. Honduras also has separate Bilateral Investment Treaties with the Republic of Korea and with Switzerland.

#### Bilateral Taxation Treaties

Honduras and the United States signed a Tax Information Exchange Agreement with the U.S. in 1990. In 2014, Honduras and the United States signed an additional bilateral agreement to improve international tax compliance and implement the Foreign Account Tax Compliance Act (FATCA).

### **14. Foreign Trade Zones/Free Ports/Trade Facilitation**

There are no direct export subsidies provided by the Honduran government, but it provides tax exemptions to firms in a free trade zone. The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts and capital equipment (except vehicles) into Honduras exempt from surcharges and customs duties if the input is to be incorporated into a product for export (up to five percent can be sold locally). Export processing zones can be established anywhere in the country, and companies operating in export processing zones are exempt from paying import duties and other charges on goods and capital equipment. In addition, the production and sale of goods within export processing zones are exempt from state and municipal income taxes for the first 10 years of operation. Companies operating in an export processing zone are permitted unrestricted repatriation of profits and capital and have access to onsite customs facilities. However, companies are required to purchase the Lempiras needed for their local operations from Honduran commercial banks or from foreign exchange trading houses registered with the Central Bank.

Most industrial parks and export processing zones are located in the northern Department of Cortés, with close access to Puerto Cortés, Honduras' major Caribbean port, and San Pedro Sula, Honduras' major commercial city and a transportation crossroads. Industrial parks and export processing zones are treated as offshore operations. Therefore, customs duties must be paid on products manufactured in the parks and sold in Honduras. In addition, if Honduran inputs are used in production, they are treated as exports and must be paid for in U.S. dollars. While most companies that operate in these parks are involved in apparel assembly, the government and park operators have begun to diversify into other types of light industry, including automotive parts and electronics assembly.

Privately-owned tourism zones may be established to promote the development of the tourism industry in Honduras. The law allows for the free importation of equipment, supplies, and vehicles to businesses operating in designated tourism zones with certain restrictions (see the description of the tourism law, above). Additional information on Honduran free trade zones and export processing zones is available from the Honduran Manufacturers Association at <http://www.ahm-honduras.com>

### **15. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

*Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy*

	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$B USD)	2014	\$18.61	2014	\$19.39	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
Foreign Direct Investment	Host Country Statistical source		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	N/A	N/A	2014	\$754	BEA
Host country's FDI in the United States (\$M USD, stock positions)	N/A	N/A	2014	\$21	BEA
Total inbound stock of FDI as % host GDP	N/A	N/A	N/A	N/A	N/A

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment (Million) %			Outward Direct Investment (Million) %		
Total Inward	11,228	100%	Total Outward	393	100%
United States	2,278	20%	Panama	143	36%
Mexico	1,937	17%	Guatemala	83	21%
United Kingdom	1,297	12%	El Salvador	64	16%
Luxembourg	1,135	10%	Nicaragua	50	13%
Germany	778	7%	Costa Rica	47	12%

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey (CDIS) site (<http://data.imf.org/CDIS>)

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	259	100%	All Countries	Amount	100%	All Countries	257	100%
International Organizations	140	54.05%	Panama	1	100	International Organizations	140	54.4%
United States	83	32.0%				United States	83	32.30%
Costa Rica	14	5.41%				Costa Rica	14	5.45%
El Salvador	8	3.09%				El Salvador	8	3.11%
France	5	1.93%				France	5	1.95%

Source: IMF Coordinated Portfolio Investment Survey (CPIS) site (cpis.imf.org)

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

civil law system

### International organization participation:

BCIE, CACM, CD, CELAC, FAO, G-11, G-77, IADB, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC (suspended), IOM, IPU, ISO (subscriber), ITSO, ITU, ITUC (NGOs), LAES, LAIA (observer), MIGA, MINURSO, NAM, OAS (suspended), OPANAL, OPCW,

PCA, Petrocaribe, SICA, UN, UNCTAD, UNESCO, UNIDO, Union Latina, UNWTO, UPU, WCO (suspended), WFTU (NGOs), WHO, WIPO, WMO, WTO

## Section 6 - Tax

### Exchange control

There are currently no exchange control regulations in Honduras.

### Treaty and non-treaty withholding tax rates

There are currently no double taxation treaties in force in Honduras.

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
International Sanctions <a href="#">UN Sanctions</a> / <a href="#">US Sanctions</a> / <a href="#">EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International)</a> <a href="#">Control of corruption (WGI)</a> <a href="#">Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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