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FREE TRADE AGREEMENTS AND THE POVERTY REDUCTION AND GROWTH FACILITY: HOW THESE INSTITUTIONS TARGET POVERTY IN DEVELOPING COUNTRIES

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WHEN researching the Dominican Republic Central American Trade Agreement of 2005 (CAFTA-DR) and the International Monetary Fund (IMF), it is easy and tempting to let the eyes gloss over several presumptions, namely that both of these institutions are capable of doing what they set out to do. Despite being entirely different frameworks, both seek, among other things, to reduce poverty and raise the living standard in their target countries.[1] But, as this paper hopes to illustrate, these entities seek to create binding, legal agreements on what is really a very vague and undefined term: poverty. The reality of these agreements will be studied beyond such conclusory equations as: free trade reduces poverty. In addition to analyzing how these two international agreements reduce poverty, this paper will also focus on the legal ramifications and enforcement of these international agreements. Nicaragua and Honduras will serve as examples of how these frameworks address poverty, as they are both signatories of CAFTA-DR and both receive aid under the IMF's Poverty Reduction and Growth Facility (PRGF).[2] Before proceeding to the analysis of the frameworks themselves, the concept of poverty must be analyzed. To best peel away the presumptions connecting poverty reduction to these international agreements, it is necessary to start at the beginning with a definition of poverty.

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1. The Dominican Republic-Central America-United States Free Trade Agreement Implementation Act, pmbl., Aug. 2, 2005, 119 Stat. 462 [hereinafter CAFTA-DR].
2. *Id.*; *see also* IMF Factsheet, Aug. 6, 2006: Countries Eligible for the IMF Poverty Reduction and Growth Facility (PRGF), http://www.imf.org/external/np/exr/facts/prgf.htm (last visited Sept. 2, 2006) [hereinafter PRGF].

I. INTRODUCTION TO POVERTY

Poverty is one of those elusive and widespread problems that everyone loathes, yet no one can solve. Even its absolute definition eludes those altruistic enough to stare it in the face. Poverty is defined by its inverse: it is "the state of one who lacks a usual or socially acceptable amount of money or material possessions."[3] Poverty is also synonymous with want, which is the lack of what is necessary or required.[4] In reality this tells us very little about the nature of poverty. If you take an individual and sift him or her down to his or her most basic needs, the last need standing is self-preservation. With this in mind, what is necessary begins to emerge. By concentrating on the individual human being and his or her core necessities, there are truly only a few requirements for self-preservation, such as access to potable water, food, shelter, and medical treatment. These are the absolute necessities to sustain life.

But, if you instead try to define poverty at the macroeconomic level of, for example, an international marketplace, the definition of what is necessary or required expands. When defining preservation (and poverty) at the level of non-human economic entities and nations, not only is the definition subject to this new set of requirements but the basic requirements themselves become complicated. Consider again for a moment the typical human being. If a human ingests something necessary to preserve itself, such as food, the typical human being's stomach will digest it, and it will pass everything along and make the most of this requirement. The typical stomach does not go on strike; the esophagus does not expropriate the food for a political rally or to aid in bombarding the tongue to settle an old feud. When faced with the choice of using a good to preserve itself, a factory, a government, a local marketplace, worker, a company, corporate alliances, national markets, and even the fabled global marketplace, however, might go on strike or expropriate the necessary requirements.

But, to understand this, we must define the necessary requirements for these large, macroeconomic entities. They can be: job skills, education, technological research and development, human and physical capital, infrastructure, trade agreements, strategy, or diplomacy. A combination of these requisites must be obtained in order to survive the marketplace at any level from the street vendor to the national economy.

A. PREMATURE SOLUTIONS TO POVERTY

While it makes sense that the lack of these requirements is the definition of poverty, consider the consequence of such poverty. The obvious risk of lacking what is necessary to survive is the risk of physical or market death, unless some sort of remedy or influx of the necessary matter is

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3. Merriam-Webster Online Dictionary, Definition of Poverty, http://www.m-w.com/dictionary/poverty (last visited Sept. 2, 2006).
4. *Id.*; *cf.* Merriam-Webster Online Dictionary, Definition of Want, http://www.m-w.com/dictionary/want (last visited Sept. 2, 2006).

inserted into the ailing individual or entity. It may not mean certain death to live without a combination of these necessary elements, but it will force the entity or individual to scramble to survive. Such consequences will lead the individual or entity to seek aid from outside sources, especially if there is an inequality of these necessaries. First, consider again the impoverished individual.

The inability of an individual to provide him or her self with medical treatment or potable water presents two options. The most common and sensible option is to seek those necessary elements from another individual or entity. Initially, the individual may seek the lacking element from his neighbors who do possess the missing element. The respondent neighbor may elect to trade the ailing individual a requirement for a requirement or a requirement for a caprice, if inequality is present. If inequality is so great, the neighbor may, however, decide to generously give the requirement or share in it with his neighbor, which leads to the next option. The second option open to an individual is to approach a higher authority for aid. If, alternatively, the ailing individual approaches the government, then the government may provide that remedy without burdening the ailing individual (directly). Consequently, this person ceases to be impoverished (at least for the present). And so emerges the paradigm of open-trade and post-depression welfare economics in a very simplified form.

Now, consider how the macroeconomic entity will perform these two options. It appears, before much analysis, that the solutions work. By offering incentives to its neighboring nation, the ailing nation can trade and barter its possessions into a more sustainable position with other neighboring nations. Or, more realistically, the nations can reduce trade restrictions and better facilitate trade between their private sectors, creating a harmonious intergovernmental system of trade that sustains life on both ends. The second option has only recently become an option for impoverished or developing nations. With the advent of new international banking agencies, there is a higher authority available to bestow aid on an entire nation. Preventing the demise of governments has been one of the functions of these institutions, who like a super government, collect capital from many nations and disperse it to the ailing nations.

These two solutions are used in the real world by nations seeking to enter into free trade agreements or pleading for relief from an international lending agency. Before concluding that both of these options are completely viable for an impoverished nation, this paper will further investigate the manner that these entities provide their functions. It is the purpose of this paper to demonstrate that what works for a human being does not necessarily work for a macroeconomic entity. Delivering food to a nation by airdrop does not necessarily satiate the starving quotient of a country, but delivering food into the mouth of a starving individual will satiate that individual's hunger. Such concerns burst the seams of this

seemingly simple solution to poverty. This paper seeks to address these two accepted methods of widespread, national poverty reduction.

B. Better Defining the Poverty Problem

Before delving into a detailed analysis of free trade agreements and international lending, the problem of poverty at a national level needs to be better understood by focusing on the concept of measuring poverty. The decision of how to measure poverty has sparked its own debate.[5] Before measurement can begin, there are two different schools on how to quantify poverty. This distinction splits poverty into two categories, either "absolute poverty" or "relative poverty."[6] The first step is to decide what method to adopt. Once that has been established, the second preliminary step is to observe how pervasive poverty is before proceeding along with the case studies.

1. *Measuring Poverty*

Poverty is a moving target. The social data used to define it is usually gathered by censuses, surveys, and the like, but in a country wracked by funding or political problems, the collection of such data becomes hindered and inconsistent. For example, in Nicaragua, during the tumultuous regime of the Sandinistas, the country neglected to conduct an agricultural census, creating a twenty-seven-year gap in demographic data.[7] Additionally, those surveys that do get conducted are sometimes contradictory.[8] With such varying and contradictory results, studying poverty becomes very difficult.

The first step in measuring poverty is drawing the poverty line.[9] Here is where the absolute poverty and relative poverty debate enters the fray. The former fixes the poverty line at a set point. This is usually done at the cost of living, measured at one dollar per day.[10] This amount is then balanced so that one country can see its poverty in relation to another. But, due to inflation and varying currency exchange rates, this figure is inaccurate. Therefore, pure exchange-rate dollars are converted into purchasing power parity (PPP), adjusting the exchange-rate dollar

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5. Some commentators are less careful about an equally important distinction lingering under the surface of the globalization debate – between the ideas of 'relative poverty' and 'absolute poverty.' . . . Economists have traditionally assumed that people only care about their own consumption, but there is now a body of evidence suggesting that people do hold 'social preferences,' and that relative deprivation is an important determinant of welfare and behavior.
Martin Ravallion, *The Debate on Globalization, Poverty, and Inequality: Why Measurement Matters* 4 (World Bank Dev. Research Group, Working Paper No. 3038, 2003).
6. Relative poverty is like a measurement of inequality. *Id.*
7. Republic of Nicaragua, A Strengthened Growth and Poverty Reduction Strategy 5 (2001), http://www.imf.org/External/NP/prsp/2001/nic/01/073101.pdf [hereinafter Nicaragua PRSP].
8. *See* Ravallion, *supra* note 5, at 2.
9. *Id.* at 9.
10. *Id.*

amount to a pre-determined cost of certain goods.[11]

On the other hand, proponents of a relative poverty scheme advocate a shifting poverty line that varies "with the mean income of some relevant reference group."[12] Note that, under this theory, if poverty decreases (i.e., the lacking requisites are supplied across the board), then the poverty line will move to indicate that the same persons are still impoverished relative to the wealthy (unless by supplying them, total equality is achieved). For this reason, using a scaling poverty line makes less sense as it contradicts the very definition of poverty, i.e., the lack of what is necessary and becomes instead a measurement of inequality. When a person gains what is necessary, then that person should cease being classified as impoverished. Only then should inequality be considered.

This measurement debate stops the struggle to solve poverty before it starts. Instead of concerning themselves with how best to use funds to attack the most extreme forms of poverty, many economists are concerned with the perceptions of the poor and how they perceive themselves in relation to the haves of society. This paper will not resolve this debate in favor of either side, but in the case of extreme poverty, the argument, to measure in terms of relative poverty, seems capricious when individuals themselves do not have the basic needs and educations to sustain their own lives. While this paper will avoid a deep statistical survey-method analysis, the reader should keep in mind that the manner of measuring poverty has, unfortunately, become a partisan issue. This debate is critical, if somewhat hastily addressed here, because it creates a difficulty not only in measuring poverty, but also in linking empirical data to conclusions as a result of the categorical difference in measuring against a fixed and elastic poverty line.[13] One method essentially emphasizes widespread, uniform macroeconomic growth to prove poverty reduction, whereas the other considers that growth dispositive of poverty reduction.

2. *Poverty's Pervasiveness*

Forgetting for a moment the difficulty in reaching a consensus about absolute and relative poverty, the pervasiveness of poverty is an equally important consideration. The two countries employed for this case study, Nicaragua and Honduras, are both among the least-developed nations of the Americas.[14] Both are also, according to the United Nation's Human

11. *Id.* at 9-10.
12. *Id.* at 4.
13. *See* Pinelopi Koujianou Goldberg & Nina Pavcnik, *Trade, Inequality, and Poverty: What Do We Know? Evidence From Recent Trade Liberalization Episodes in Developing Countries* 8 (Nat'l Bureau of Econ. Research, Working Paper No. 10593, 2004), *available at* http://www.nber.org/papers/W10593.
14. Or they exhibit the lowest development indicators as supplied by the United Nations. Guatemala is actually lower than Nicaragua and Honduras, but for some reason is not eligible for the IMF's PRGF fund, so it was not considered in this discussion. Eligibility will be discussed in a later section of this paper. Nicaragua is ranked 112th on the Human Development Indicator's list, while Honduras is ranked 116th. Guatemala is ranked 117th. United Nations Human Development

Development Indicator rankings, countries of medium development, ranked higher than some seventy-one other countries.[15] Despite seemingly developed status worldwide, these countries are still classified as developing and feature a huge percentage of impoverished citizens; 72 percent of the 1998 Nicaraguan population lived below the poverty line, according to the Unsatisfied Basic Needs (UBN) method of quantifying poverty, compared with 48 percent in Honduras using the same method.[16] What is necessary to sustain life is more difficult to obtain in these countries. Marred by past economic mismanagement that led to today's shaky economies,[17] these two countries face a number of developmental challenges. In spite of these shortcomings, both have attempted to wade through the various solutions to poverty, raising their country's esteem among the international marketplace, while solving domestic issues at home.[18] They have both entered into a free trade agreement with the United States and sought additional loans through the PRGF.

II. FREE TRADE AGREEMENTS AND POVERTY

CAFTA-DR was signed into U.S. law in 2005.[19] Also in 2005, two of CAFTA-DR's signatories underwent review pursuant to their loans from the World Bank/IMF under the PRGF.[20] But for now, this section will focus on the general manner that free trade agreements, like CAFTA-

Report Office, Human Development Indicators tbl.1 (2005), http://hdr.undp.org/reports/global/2005/pdf/HDR05_HDI.pdf#search=%22human%20development%20indicators%202005%22 [hereinafter HDI].

15. Most of which are in Africa and Asia. *Id.*
16. According to each country's Poverty Reduction Strategy Paper statistics conducted separately in 2001. The UBN method is used because it is the only one provided by both countries. Nicaragua considers 47.9 percent to live below the poverty line based on a different method, while Honduras considers 66 percent of their country impoverished on an income standard. The disparity in numbers is based on the use of two different standards of measurement; the lower one considers poverty in reference to houses that lack basic needs. These figures vary based on what method is used, and, in addition, are buffered by the urban poverty figures. That is because the rural incidence of poverty in these countries is generally much higher than in urban areas. NICARAGUA PRSP, *supra* note 7, at 6. REPUBLIC OF HONDURAS, POVERTY REDUCTION STRATEGY PAPER 9-10 (2001), http://www.imf.org/External/NP/prsp/2001/hnd/01/083101.pdf [hereinafter HONDURAS PRSP],
17. *See* HDI, *supra* note 14, at tbl.14. The highest gross domestic product per capita of the past thirty years was recorded, for both countries, in the late 1970s, prior to the tumultuous 1980s. The then-governing Sandinistas are largely blamed for Nicaragua's current poverty struggles but still appear on party ballots in the country's free elections of the past decade. Additionally, the Sandinistas were most infamous for their ties to the Soviet Union, threatening armed conflict with the United States. This period of turmoil no doubt contributed to a period of economic stasis. *See* NICARAGUA PRSP, *supra* note 7, at 8. Honduras, on the other hand, suffered rampant inflation due to fiscally irresponsible governmental regimes during the 1980s, and even after efforts were made to curb the high inflation, it still hovered around 30 percent in 1995. *See* HONDURAS PRSP, *supra* note 16, at 14.
18. *See* NICARAGUA PRSP, *supra* note 7; *see also* HONDURAS PRSP, *supra* note 16.
19. Press Release, The White House, President Signs CAFTA-DR (Aug. 2, 2005), *available at* http://www.whitehouse.gov/news/releases/2005/08/20050802-2.html.
20. Note the years of the Annual Poverty Reduction Strategy Paper Reports. *See* NICARAGUA PRSP, *supra* note 7, at 1; *see also* HONDURAS PRSP, *supra* note 16, at 1.

DR, attempt to reduce poverty. For those who have avoided U.S. politics for the past fifteen years, free trade agreements are essentially tariff reductions and a part of globalization.[21] They typically remove trade barriers on most (those not specifically designated as sensitive) agricultural and consumer products with the goal of maintaining healthy competition and creating a more efficient marketplace across international borders.[22]

The inquiry is best prefaced by an analysis of what CAFTA-DR sets out to do in addition to its place in the history of free trade agreements. That setup is best followed by a comparison to language and situational analyses of other free trade agreements and their documented effects on reducing poverty. This comparison will incidentally raise the issue linking empirical data on poverty to free trade agreements, but it will also raise issues about the presumption of linking poverty reduction as a concept to free trade agreements. This section will conclude with predictions for CAFTA-DR's future effects on poverty reduction in its signatory countries, particularly Nicaragua and Honduras, and the considerations involved in making such a presumption.

A. Background on CAFTA-DR

CAFTA-DR arrives at a time when much of the world is embracing an increasingly open period of trade. This trend towards a global economic market was sparked by trade initiatives with the purpose of binding every country to the tenets of open mercantilism, such as those of the World Trade Organization and other regional, bilateral free trade agreements. With these bilateral free trade agreements in mind, we will begin our discussion on CAFTA-DR.

1. A Free Trade Agreement of a Familiar Nature

No discussion on the history of free trade agreements in the Americas can be complete without at least some reference to the North American Free Trade Agreement (NAFTA), signed by the United States, Canada, and Mexico.[23] NAFTA is still recent history, and the decennial economic analysis and reviews are only just now rolling through. Considering NAFTA is important to a complete understanding of CAFTA-DR, because most economists note the similar nature of NAFTA and CAFTA-DR, and some purport that NAFTA has been an utter failure in terms of reducing poverty.[24] "Free trade agreements, like CAFTA-DR, could

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21. Goldberg & Pavcnik, *supra* note 13, at 1.
22. U.S. Office of Trade Rep., CAFTA Facts: Meeting the Needs of the Region's Rural Poor, http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file268_7676.pdf (last visited Sept. 2, 2006) [hereinafter Needs of Rural Poor].
23. The North American Free Trade Agreement, U.S.-Can.-Mex., Dec. 17, 1992, 32 I.L.M. 289 (1999), *available at* http://www.fas.usda.gov/itp/Policy/NAFTA/nafta.html.
24. Laura Carlsen, Presentation at Asian Regional Workshop on Bilateral Free Trade Agreements, The Price of Going to Market (Sept. 19, 2005), http://americas.irc-online.org/pdf/reports/0509market.pdf.

have distributional implications involving various income groups. In particular, some argue that free trade agreements could have an adverse impact on the poorest segments of the population since these agreements could compress their employment opportunities and wages."[25] While NAFTA has doubled the trade dollars between the United States and Mexico,[26] others say that it has left subsistence crop farmers in southern Mexico unable to compete with lowered crop prices.[27] Additionally, nearly all agree that CAFTA-DR is a free trade agreement of NAFTA's mold, even if there are disagreements about what that means for the signatory countries.[28]

While CAFTA-DR may not be a particularly revolutionary addition to the free trade agreement scheme, it does demonstrate a change in the international trade dynamic in the ten years since NAFTA was signed into effect between the United States, Canada, and Mexico. Some economists say that NAFTA itself will have a negative impact on CAFTA-DR, pointing out that there have been a number of changes to the CAFTA-DR signatory countries' tariffs already, either in reaction to NAFTA or in anticipation of CAFTA-DR itself.[29] In other words, CAFTA-DR marks the firm handshake on already-transpired reduction of tariffs and foreign investment between the signatory countries.[30]

2. *The Public Relations Literature on CAFTA-DR*

In addition to the historical developments that led to CAFTA-DR's ratification, consider the rhetoric that took place in the background of CAFTA-DR's ratification process. The Office of the U.S. Trade Representative, in promoting CAFTA-DR, lists a whole host of comparative literature on CAFTA-DR's strengths, notably its ability to reduce poverty among the Central American signatories.[31] These short texts, while more or less brochures, are extremely important for linking poverty reduction to CAFTA-DR's goals.[32]

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25. Markus Rodlauer & Alfred Schipke, *Central America: Global Integration and Regional Cooperation* 22 (Int'l Monetary Fund, Occasional Paper No. 243, 2005) (emphasis added), *available at* http://www.imf.org/external/pubs/ft/op/243/index.htm. It is important to note that these editors do contend that some of the negative impacts of NAFTA have been a result of the peso crisis of 1995, and some economists have presented data showing that this resulted in an overall economic downturn for Mexico. But the editors point out that the least affected areas of Mexico were those that embraced open trade. *Id.* at n.34.
26. *Id.* at 10.
27. Carlsen, *supra* note 24, at 2.
28. *Id.*; *see also* Rodlauer & Schipke, *supra* note 25, at 9.
29. Rodlauer & Schipke, *supra* note 25, at 9 n.12.
30. Daniel Griswold & Daniel Ikenson, *The Case for CAFTA: Consolidating Central America's Freedom Revolution* 4 (CATO Inst.'s Trade Briefing Paper No. 21, Sept. 2004).
31. U.S. Office of Trade Rep., CAFTA Briefing Book, http://ustr.gov/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/Section_Index.html.
32. These public relations pieces are vital to the understanding of framework that underpins free trade agreements as mechanisms for poverty reduction. As will be seen in the next section, poverty, the word, never appears in CAFTA-DR's text.

One of the most highly touted correlations between CAFTA-DR and poverty is that farmers in both countries will find a greater market for their goods with the dissolution of trade barriers.[33] Manufacturers and consumers in both countries can then select the lowest priced goods, thereby saving the manufacturers and consumers costs, making their money stretch further and making them less impoverished.[34] But it stands to reason that if certain lower priced goods are in the United States, as many are, then the competing farmers in impoverished countries will lose their market altogether. The framers of CAFTA-DR have attempted to offset this problem (one of many complaints leveled against NAFTA) by allowing signatories to maintain tariff restrictions on certain industries, either temporarily or permanently.[35] These protective tariffs range from controversial protections, such as sugar in the United States, to other crops, such as white corn in Central America.[36] Other crops will lose their tariff protection over a measured period of time, providing a more gradual transition to free trade to allow certain farmers more time to develop new job skills or to transition from job to job.[37]

Interestingly enough, the World Bank has also issued its own comments on CAFTA-DR's potential beneficial effect on poverty.[38] According to the World Bank President, "[t]his agreement will help secure and expand the access of Central American nations to their largest trading partner and help provide the potential for increased trade and investment in the region—critical factors in boosting economic growth and reducing poverty."[39] This report essentially repeats the language of the U.S. Trade

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Cf. Joel R. Paul, *Do International Trade Institutions Contribute to Economic Growth and Development?*, 44 VA. J. INT'L L. 285 (2003) (discussing linkage as a concept connecting economic growth to free trade agreements).

33. NEEDS OF RURAL POOR, *supra* note 22.

34. *Id.*

35. *Id.* In the U.S. Trade Representative's discussion on meeting the needs for the rural poor, the industries of white corn, potatoes, and onions are mentioned. What is not mentioned is the U.S. sugar exception. One of the most notorious examples of how this tariff maintenance can be politically charged and a back-door for protectionism is seen in the U.S.' continued tariff restrictions on imported sugar, which is a major industry for the Central American countries. This will be discussed in greater detail in the analysis of the text for CAFTA-DR, but "[a] true free-trade agreement would remove the barriers that prevent the Central American region from capitalizing on the advantages it has in sugar production so that America's food processors, beverage producers, and confectionaries could capitalize fully on their own advantages." Griswold & Ikenson, *supra* note 30, at 6.

36. NEEDS OF RURAL POOR, *supra* note 22.

37. *Id.* Such an argument can be easily attacked. All but the youngest of such workers who suffer to lose industries may be ill-suited for any other area of employ, largely because skilled jobs may require training that is too costly to expend on an aging farmer.

38. WORLD BANK GROUP, CAFTA-DR: CHALLENGES AND OPPORTUNITIES FOR CENTRAL AMERICA (2005), http://lnweb18.worldbank.org/LAC/LAC.nsf/PrintView/EF19E9E2E78A00458525702D006D0E7E?Opendocument.

39. *Id.* The World Bank's equation for reducing poverty as a result of a free trade agreement also includes several actions to be taken by the nations themselves, such as increasing infrastructure, educational spending, and transparency. This list will echo almost perfectly in the Poverty Reduction Strategy Papers issued by Nic-

Representative: that CAFTA-DR will offer the rural poor cheaper prices on certain goods.[40]

B. CAFTA-DR's Language on Poverty

When browsing the text of CAFTA-DR, the careful reader may note that the word poverty never appears once in the entire text.[41] Before sending hate mail to the author for reading about a correlation between poverty and CAFTA-DR when there is no mention of poverty in the entire document, read more deeply into CAFTA-DR's language. The preamble does contain euphemistic language to the effect of reducing poverty. The signatory governments to CAFTA-DR resolved to:

> CREATE an expanded and secure market for the goods and services produced in their territories while recognizing the differences in their levels of development and the size of their economies;
>
> . . .
>
> ENSURE a predictable commercial framework for business planning and investment;
>
> . . .
>
> CREATE new opportunities for economic and social development in the region;
>
> PROTECT, enhance, and enforce basic workers' rights and strengthen their cooperation on labor matters;
>
> CREATE new employment opportunities and improve working conditions and living standards in their respective territories;
>
> . . . [and]
>
> PRESERVE their flexibility to safeguard the public welfare.[42]

So, while CAFTA-DR may not contain the word poverty per se, it does seek to develop these countries by expanding their markets, protecting their workers, and improving living standards in the signatory countries. Considering that one of the signatories, the United States, is the tenth most developed country in the world, and another, Costa Rica, is the forty-seventh, the replacement of the term poverty with the euphemistic phrase improved standards of living makes some sense.[43]

The reasons for recapitulating a good portion of the CAFTA-DR preamble are not limited to the discussion of the euphemistic replacement of the word poverty. It is important to note this desire to raise living standards occurs in the preamble but does not occur elsewhere in CAFTA-

aragua and Honduras to be covered in the section on the PRGF provided by the World Bank and the IMF.

40. *Id.*
41. CAFTA-DR, *supra* note 1.
42. CAFTA-DR, *supra* note 1, at pmbl.
43. HDI, *supra* note 14, at tbl.1. Because of the development of the U.S. economy (and to a lesser extent that of Costa Rica) the channel of foreign direct investment should be considered. Remember that CAFTA-DR asks that each signatory be mindful of the size of their economies.

DR's text. This omission highlights the pretextual nature of this goal.[44] Because there is no specific provision mandating that poverty be reduced (and what would one look like if there were?), there is no directly actionable, binding provision in CAFTA-DR to hold any government or agency accountable for raising living standards. Poverty reduction, as a real concept, only exists explicitly in the public relations pieces accompanying CAFTA-DR's legislative process. Additionally, it adorns the preamble in spirit, but poverty reduction is found nowhere (either in spirit or explicitly) among the provisions of CAFTA-DR. Suffice to say, poverty reduction is merely a hope used to fuel passage of these agreements, and such hope is founded on the presumption that more money flowing into a government will equate to poverty reduction.

Returning to the preamble, its text ties increased living standards, i.e., poverty reduction, to this particular free trade agreement. The goals of CAFTA-DR profess to create not only secure markets for trade by restricting inhibitions, tariffs, and easing customs duties but also to create a connection between trade openness and raised living standards.[45] The connection between these higher living standards and free trade lies in the "new employment opportunities" created by the agreement.[46] The feasibility of this correlation between open markets and improved living standards via employment can depend on whether the more developed countries can freely invest in the less-developed countries. After all, the whole purpose of a free trade agreement is to remove the barriers to trade and promote a more efficient marketplace. Part of this arrives in the form of CAFTA-DR's specific provisions regarding foreign direct investment (FDI).

To analyze this assumption further, let us assume that the first tenets are true that FDI will occur if restrictive borders are opened. Some data shows this already occurs in the Central America region.[47] One of the several factors inhibiting FDI in shaky economies is the fear of expropriation or freezing of the business assets by preventing exchanges from local to foreign currency.[48] CAFTA-DR contains language intended to prevent such expropriation in chapter ten.[49]

To summarize the preamble: by removing trade restrictions, CAFTA-DR creates secure markets, promotes direct investment, and offers new employment opportunities within a country. So the argument follows: if a

44. *See* Paul, *supra* note 32.
45. CAFTA-DR is not the first trade organization purporting such a correlation exists. The language is very similar to the World Trade Organization's stated purposes. *Id.*
46. Looking again at the Preamble of CAFTA-DR, it is these new economic opportunities that will raise living standards (and working conditions). CAFTA-DR, *supra* note 1, at pmbl.
47. Rodlauer & Schipke, *supra* note 25, at 16-17 (demonstrating the amount of FDI in the CAFTA-DR region).
48. This is what is addressed in the Preamble by the language of "commercial framework." CAFTA-DR, *supra* note 1, at pmbl.
49. *Id.* at ch. 10.

totally closed, protectionist country with ripe capital and raw sources suddenly changes its policy to one of complete openness, with guarantees against a return to such protectionist trade policies, trade will be encouraged, creating new flows of capital and jobs to this country that has been starved of outside investment.[50] What occurs is essentially a balancing of interests, a stripping away of inefficient markets and a replacement with avenues of trade. The trend parallels the large-scale version of the emerging national marketplace in the United States, where largely self-sustaining agrarian families began relying on avenues of trade rather than their own work product to sustain their lives, until eventually their own individual work product ceased to exist. It required those families to depend not on internal output but on a functional exchange of capital for services.

C. The Effects on Poverty Through CAFTA-DR (and U.S. Monetary Backing)

While many argue that this style of free trade agreement will create more inequality across the Americas, some see hope beyond the short history of NAFTA, which was hindered both by the 1995 peso crisis and the bull-to-bear market transition in the United States.[51] Because NAFTA has proven susceptible to volatile markets, it remains to be seen how CAFTA-DR will affect investment and the voluntary and corporate-level influx of U.S. dollars there in the short term. And, keep in mind that this market openness is inconclusive when it comes to directly reducing poverty. But one measure of change that could help to reduce poverty even further is the amount of U.S. federal spending going to assist the rural poor of the signatory countries.

CAFTA-DR is not simply a piece of wishful legislation for reducing poverty. CAFTA-DR has been coupled with several funding initiatives for trade capacity building and rural development.[52] These funds are provided in a manner similar to the IMF PRGF funds, but are issued

50. While this exact argument is not stated elsewhere, it is nevertheless the commonly accepted situation that underlies claims about free trade. While several economists and law review authors have questioned this from the perspective of general economic growth, they all consider this assumption to be the principal argument for free trade. *See* Rodlauer & Schipke, *supra* note 25, at 24. (comparing NAFTA and the specific economic theories underlying free trade); Paul, *supra* note 32, at 2 (discussing the idea that free trade is often an assumption to economic growth).
51. *See* Rodlauer & Schipke, *supra* note 25, at 23.
52. U.S. Office of Trade Rep., CAFTA Facts: Financial Support for CAFTA-DR, http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file121_7786.pdf#search=%22cafta%20policy%20brief%20june%202005%20trade%20representative%20united%20states%22 (last visited Sept. 2, 2006) [hereinafter Financial Support]; U.S. Office of Trade Rep., CAFTA Facts: The Facts About Improving Labor Conditions, http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file192_7854.pdf#search=%22cafta%20policy%20brief%20july%202005%20trade%20representative%20united%20states%22 (last visited Sept. 2, 2006) [hereinafter Improving Labor Conditions].

directly from the U.S. government.[53] Of these funds, $215 million has been granted to Honduras and $175 million has been granted to Nicaragua.[54] In total, CAFTA-DR countries will stand to receive several billion dollars from these various agencies over the next few years.[55] These loans are there to increase the effect CAFTA-DR has on poverty reduction in these countries. Without them, it can easily be understood that there could be no means for facilitating a change to a more efficient marketplace or for providing the retraining or basic education to welcome new industries in these less-developed countries.

1. Nicaragua and CAFTA-DR

This portion of the paper will seek to uncover some of the individual problems confronting Nicaragua with respect to international trade, primarily with the United States. By understanding and distinguishing Nicaragua from some of the other CAFTA-DR signatories, a better analysis of the trade framework can be made. This section seeks to consider the information relating to Nicaragua, as has been cultivated separate and apart from the country's Poverty Reduction Strategy Papers (PRSPs), which will be discussed in the next topic.

Of all CAFTA-DR signatories, Nicaragua exports the least percent of its GDP to the United States at 5 percent.[56] Nicaragua is, however, the most agriculturally dependent of the CAFTA-DR signatories, netting 30 percent of its GDP from this sector.[57] Agricultural dependence "appears to accentuate the poverty problem," according to some economists, and Nicaragua is no exception, having a poverty rate of around 50 percent (higher if considering the UBN method).[58] These statistics help demonstrate that Nicaragua is a farmer-friendly market. Because we have already discussed how CAFTA-DR will affect the price of goods, driving them down, it could be said that CAFTA-DR has the potential to create major problems for Nicaraguan farmers. Being so heavily dependent on nationally-produced agricultural products, tariff reductions will bring about cheaper imported agricultural products, simultaneously creating "welfare gains for a significant majority of households . . . because of the reduction in prices, while producers of the sensitive agricultural products could experience welfare losses."[59] Either way, CAFTA-DR will create

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53. FINANCIAL SUPPORT, *supra* note 52.
54. *Id.*
55. *Id.*; *see also* IMPROVING LABOR CONDITIONS, *supra* note 52 (discussing the funds that will go directly from the U.S. government to enforcement of International Labour Organization provisions regarding fair labor standards in the region).
56. Alfred Schipke, *Building on CAFTA*, 42 FIN. & DEV. 4, Dec. 2005, *available at* http://www.imf.org/external/pubs/ft/fandd/2005/12/schipke.htm.
57. Rodlauer & Schipke, *supra* note 25, at 23. This source will be used continuously throughout this section, because it presents general macroeconomic data in reference to CAFTA-DR. Keep in mind that the data for this source refers solely to the export markets between the United States and these individual countries and does not include data about trade between the CAFTA-DR countries themselves.
58. *Id.*
59. *Id.* at 23 n.38.

more competition for these farmers and may force them into other sectors, creating a market for consumers.

In recent history, Nicaragua has been one of Central America's most volatile economic climates, due to the political turmoil of the 1980s as well as its dependence on agrarian products.[60] Conversely, since the Sandinista regime, Nicaragua's exports and imports sectors have grown considerably since 1994, with about a 3 percent growth between 1994 and 1996 alone.[61] Because of this, Nicaragua's trade openness (i.e., its exports and imports as compared to GDP) has almost doubled in the past ten years.[62] The size of Nicaragua's GDP makes it especially susceptible to increases in trade, which could be substantial as a result of CAFTA-DR.

That being said, among CAFTA-DR signatories, Nicaragua receives the smallest amount of gross FDI from the United States, even though that small amount is about 9 percent of the Nicaraguan GDP.[63] In other words, although Nicaragua receives a fraction of the FDI that Costa Rica or the Dominican Republic do from the United States, that fraction is still a large portion of the Nicaraguan GDP, much larger in percentage terms than either Costa Rica's or the Dominican Republic's FDI/GDP ratio. Between 2001 and 2002, Nicaragua did receive more than Honduras in terms of gross FDI, but it is unclear if that is the sign of a trend or a statistical anomaly.[64] Any change in FDI as a result of CAFTA-DR could therefore substantially affect the country's GDP and, therefore, the country's ability to fund projects to help reduce poverty. For reference, Nicaragua has pledged approximately 28 percent of its GDP to funding the PRGF programs in 2004 and 2005, and its predictions for future success incorporate a projected increase in GDP of 33 to 50 percent over the next five years.[65]

In summary, Nicaragua's economy could undergo major expansion as a result of CAFTA-DR. Despite the optimism Nicaragua shows in its projected GDP, there are, however, a number of obstacles to such a booming economy. The performance of the U.S. economy and its needs for expan-

60. *See* NICARAGUA PRSP, *supra* note 7, at 14. For example, there is still litigation as a result of the Sandinista regime's expropriations in the Nicaragua of the 1980s. The National Trade Estimate Report of 2005 for Nicaragua listed this problem as one of the major inhibitors of FDI in the country. For example, many U.S. foreign property owners who lost their property during the Sandinista regime have sued in Nicaragua only to have their property remain in the hands of the former Sandinista military officials who expropriated the property in the first place. Nevertheless, FDI was still marginally increased between 2002 and 2003 for Nicaragua. U.S. OFFICE OF TRADE REP., NICARAGUA, 2005 NATIONAL TRADE ESTIMATE REPORT 1, 7 (2005) *available at* http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_NTE_Report/asset_upload_file719_7486.pdf [hereinafter NICARAGUA TRADE REPORT].

61. Rodlauer & Schipke, *supra* note 25, at 13.

62. *Id.* at 11.

63. *Id.* at 16-17 tbl.2.7-.8.

64. *Id.*

65. REPUBLIC OF NICARAGUA, NATIONAL DEVELOPMENT PLAN 85 tbl.7.2 (2005), http://www.imf.org/external/pubs/ft/scr/2005/cr05440.pdf [hereinafter NICARAGUA PRSP II].

sion, the perceptions of CAFTA-DR's anti-expropriation provisions and Nicaragua's stability among U.S. foreign investors, and the ability for Nicaragua to manage and reap benefits from those that do invest will all weigh heavily in whether CAFTA-DR has a positive impact on the Nicaraguan GDP. And, while an increase in GDP has already been predicted by Nicaragua for use in its PRGF, the question remains whether such an increase is likely to occur.[66] As we will see with Honduras, its growth in the past ten years is indicative of a market that may have peaked (or is merely recuperating from natural disasters).

2. *Honduras and CAFTA-DR*

Honduras, while having several successful and peaceable transfers of power since the early 1980s, has also had its share of fiscal irresponsibility and governmental corruption as recently as 1993.[67] The last few presidents have, however, strived to curb governmental spending and inflation, which was reduced to 9 percent in 2004, down from the 30 percent range ten years prior.[68] Some poverty surveys place Nicaragua at the forefront of Central American poverty, while others say that Honduras has poverty around 80 percent.[69] Recent history includes the devastation of Hurricane Mitch, which devastated the Honduran economy in 1998.[70] With the Honduran economy rebounding as of the end of 2004,[71] it remains to be seen how CAFTA-DR will affect Honduras, or whether it will affect Honduras at all.

Honduras, like all Central American countries, has traditionally had an agriculturally dependent economy, with agricultural exports to the United States dwarfing manufacturing exports three to one from 1994 to 2001.[72] As of 2001, Honduras and Nicaragua were both lagging behind the rest of Central America, who have since balanced their export industries more evenly among agriculture and manufacturing with respect to the United States.[73] But Honduras' total exports to the United States were some five times that of Nicaragua's.[74] One of the most telling statistics is the fact that Honduras and Nicaragua are the lowest of all the CAFTA-DR signatories when it comes to the manufacturing business in

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66. *Id.*
67. U.S. State Dept., Bureau of Western Hemisphere Affairs, Background Note: Honduras, http://www.state.gov/r/pa/ei/bgn/1922.htm (last visited Sept. 2, 2006) [hereinafter Honduras].
68. IMF Concludes 2005 Article IV Consultation with Honduras, PIN No. 05/51 (Apr. 13, 2005), *available at* http://www.imf.org/external/np/sec/pn/2005/pn0551.htm (last visited Sept. 2, 2006) [hereinafter IMF Concludes 2005]; *cf.* Press Release, International Monetary Fund, IMF Approves Second Loan for Honduras under the ESAF, IMF, Doc. No. 95/8 (Jan. 31, 1995), *available at* http://www.imf.org/external/np/sec/pr/1995/pr9508.htm.
69. Rodlauer & Schipke, *supra* note 25, at 23.
70. Honduras, *supra* note 67.
71. IMF Concludes 2005, *supra* note 68.
72. Rodlauer & Schipke, *supra* note 25, at 15 tbl.2.
73. *Id.*
74. *Id.* at 14.

the emerging markets. While each hold up to par in the export of food stuffs, Honduras exports ten times as many apparel goods as Nicaragua does.[75] This maquiladora industry has garnered its fair share of criticism among workers' rights groups, despite becoming a huge industry in the country.[76] For example, one such leader recently noted the problems with the industry, in spite of the hundred thousand or so jobs it creates as follows: "the salaries are low and the social cost provoced [sic] by the maquilas are high. And the maquila industry is a volatile capital. It is here today[,] but tomorrow it could be in Nicaragua."[77] Not only that, but the maquila companies also receive government tax incentives, which at the least creates a perception of mistrust between the government and the poor that are supposed to be helped by the new jobs.[78]

This perspective may explain the fact that Honduras' export business to the United States can be so large, yet the quality of life for many citizens is so low compared to other countries. In other words, an increase in FDI to Honduras in the form of new industries may not do much for poverty. While this paper will not enter into the debate of the maquiladora industry, the ire it has raised simultaneously raises some questions and doubts about the correlation between poverty reduction and increased FDI and trade. Perhaps these investments are a necessary step in developing an international marketplace. Some, particularly those in the maquiladora industries, are looking forward to CAFTA-DR as a means of opening the door to U.S. FDI.[79] But that still does not connect the money going into creating and maintaining these industries with the impoverished Honduran citizen, particularly those that live outside of the new plant's locale. The government's leniency and bargaining to draw businesses to Honduras may not be doing much for the impoverished Honduran citizen, either. The paper will return to consider the role of the government in the next section on the PRGF. But for now, the period of trade precipitating CAFTA-DR raises as many new questions as it answers old ones.

3. *Conclusions Regarding CAFTA-DR*

Poverty reduction is a spiritual goal of CAFTA-DR, but no one, not even free trade's biggest proponents, can pretend that this correlation is proven or valid. It is true that in the most elastic of economic model societies, factories or industries will move to their most efficient position over the course of trade openness, and new jobs and markets will open and be available to the previously impoverished. It is also true that the situations in Nicaragua and Honduras are different enough to show that a

75. *Id.* at 14 tbl.2.
76. Anette Emanuelsson, *Between Frustration and Hope*, HONDURAS THIS WEEK, Mar. 13, 2006, *available at* http://www.americas.org/item_25846.
77. *Id.*
78. *Id.*
79. Wash. Times Advertising Dept., *CBI Enhancement Determines Future of Honduran Maquila Industry*, WASH. TIMES, Mar. 24, 2000, *available at* http://www.internationalspecialreports.com/theamericas/00/honduras/4.html.

catalyst such as open trade can be dwarfed when compared to factors that put it at a disadvantage. Some extraneous factors that are very difficult to pinpoint include: Mexico's large, natural border with the United States; the more developed government of Costa Rica; the sense memory effect that foreign direct investors feel when dealing with a country such as Nicaragua; and the remaining U.S. sugar tariffs. In light of these factors, CAFTA-DR may be too late in leveling the field between Mexico and these countries.

At this point, it is difficult to say whether the expropriations legislation and tariff removals will be enough to draw FDI to these countries. Certainly, some industry speculators in these countries hope so. But only then will CAFTA-DR have any effect (albeit an indirect) on reducing poverty in Nicaragua and Honduras. Given the fact this change is occurring in a world fraught with other factors, including the IMF lending program that will be discussed in the next section, short-term feedback on CAFTA-DR's success or failure is likely going to be construed according to the wishes of whoever is calculating the data. After all, notwithstanding the inconsistencies of poverty data, omitting one relevant fact from these equations can spin the data in a whole new light. As with NAFTA, the quest for empirical truth for a causal connection between poverty reduction and free trade is likely to remain unanswered. It is more likely that a general trend of expansion will lead to some overall growth and poverty reduction, but it will not be CAFTA-DR alone that accomplishes this goal.

III. THE IMF

Now, this paper will leave the first macroeconomic model and focus instead on the second: seeking welfare from a higher authority. This concept of welfare is not new to society. But, with the advent of a global marketplace, the past forty years has seen larger pseudo-humanitarian groups crop up with the mission of bringing whole countries out of the lower social strata and providing money and blueprints for modern infrastructure, such as the IMF. While free trade agreements are bilateral and between two self-interested parties, international lending agreements like the IMF, lie (presumably) outside the realm of self-interest, taking on a more direct approach to confront poverty and improve living standards. This paper shifts its focus to address the background of the IMF, its role as a lending institution and how its lending programs have changed both in terms of increased frequency and towards a more high-risk lending system.

A. Background on the IMF

Created in 1945, the IMF began as a lender to member governments, who become member governments through a complex loan process that

the IMF pays up front, with a return rate of interest.[80] These loans serve to cover a member country's temporary balance of payments deficits and are also used to preserve a system of pegged exchange rates.[81] But this lending may not be the IMF's entire purpose, and indeed, discerning what the IMF's actual, current purpose is has sparked much debate. The IMF presents itself as an entity "to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment."[82] At least, that is the paraphrase of its Articles of Agreement. Again, there is nothing in this charge to denote a commitment to poverty reduction, but one need only glance at the tree of IMF programs to see poverty reduction has become one of the IMF's primary goals.[83] The organization is clearly striving for a role as a humanitarian aid provider and country developer.

To best see this change and document how it precipitated, the key focus should be on 1971, when the IMF abandoned its exchange rate system and moved off of the gold standard.[84] According to some scholars, this marked the point that:

80. IMF Factsheet, Apr. 2006: IMF Quotas, http://www.imf.org/external/np/exr/facts/quotas.htm (last visited Sept. 2, 2006). The IMF issues Special Drawing Rights (SDRs), a form of currency based upon the size of the member country's quota (pre-1971, the SDR was based on the gold standard). These determine how much the country can withdraw from the IMF. From the way that the IMF classifies these member governments, there is much room for change and further that grey area, including the ability to change a country's status to grant it special treatment. The Meltzer Commission has recently provided an exposé on the SDR Department. Adam Lerrick, *Opening a Back Door to Foreign Aid: The SDR Department at the IMF*, CARNEGIE MELLON Q. INT'L ECONS. REP., (Sept. 2004), *available at* http://www.house.gov/jec/imf/sdrdept.pdf. For the record, the United States has the highest quota of all IMF member countries, and this fact will feature more heavily in the later subsections of this IMF discussion, particularly in light of who actually pays for IMF aid. The amount of loans by the United States through the IMF is 1 billion more than the total amount borrowed by all developing countries.

81. IMF Factsheet, Apr. 2006: IMF Lending, http://www.imf.org/external/np/exr/facts/howlend.htm (last visited Sept. 2, 2006).

82. The IMF's purposes are put forth in paraphrased form for purposes because of ease of reading. IMF, ABOUT THE IMF, http://www.imf.org/external/about.htm (last visited Sept. 2, 2006). It is important to consider the entirety of the provisions from the IMF's Articles of Agreement. These provisions are largely the same, but it is important to note that the IMF's Articles of Agreement state no purpose as to poverty reduction, increased living standards or any other type of nation-developing schema. Unlike CAFTA-DR, there is no euphemistic or altruistic language pertaining to poverty reduction in the original Articles of Agreement. Such changes have been added and will be discussed further in this paper. Articles of Agreement of the International Monetary Fund, art. I, *opened for signature* Dec. 27, 1945, 60 Stat. 1401, 2 U.N.T.S. 39, *available at* http://www.imf.org/external/pubs/ft/aa/aa01.htm.

83. IMF, IMF FINANCES, http://www.imf.org/external/fin.htm (last visited Sept. 2, 2006).

84. Lawrence J. McQuillan, *The Case Against the International Monetary Fund*, HOOVER INST., Sept. 29, 1999, http://www.hoover.org/publications/epp/2845951.html.

> [t]he IMF lost its only function and should have closed shop. . . . But few things are so permanent as government agencies, including international agencies. The IMF, sitting on a pile of funds, sought and found a new function: serving as an economic consulting agency to countries in trouble—an agency that was unusual in that it offered money instead of charging fees.[85]

Most of the IMF's detractors cite to the chameleon nature of the IMF's purposes as one of the major reasons that the IMF has outlived its usefulness.[86] The IMF itself defends its changing methods, stating "[our] purposes have remained unchanged but [our] operations—which involve surveillance, financial assistance, and technical assistance—have developed to meet the changing needs of [our] member countries in an evolving world economy."[87]

B. IMF Lending: Changing the Nature of the Agency

Because the IMF is a lending institution first and foremost, this portion of the paper will discuss the background of the IMF as a lending institution, the manner that it has historically used to lend money, and the way that it has changed its lending practices over the past decade. The IMF accomplishes its purposes with short-term loans called quotas, which are funded by regular member contributions from its 184 member countries and are directly related to the economic size of the country.[88] Quotas also determine the voting rights each country has in the IMF.[89] Each country is required to contribute its full quota upon joining but may provide up to 75 percent of that amount in local currency (the remainder should be in gold).[90] In exchange, a country has a right to borrow an amount equal to about 25 percent of its quota, provided it is running a balance of payments deficit, or in other words, could not pay its outstanding balances.[91] As a member nation draws beyond its IMF quota, it comes under increased supervision from the IMF to correct the disequilibrium in its balance of payments. This loaning system was considered safe because the loans were relatively low-risk. It existed simply to help maintain stability in countries by helping member countries pay their debts. By making these sorts of deals, member countries could receive immediate funds from the IMF but only at a rate short of what they had invested into the IMF, and the member countries themselves had to put money up front, paying back at a predetermined interest rate.[92]

85. Milton Friedman, *Markets to the Rescue*, Wall St. J., Oct. 13, 1998, at A22, *available at* http://www.imfsite.org/recentfin/rescue.html.
86. *Id.*
87. About the IMF, *supra* note 82.
88. IMF Factsheet, Apr. 2006: Where the IMF Gets Its Money, http://www.imf.org/external/np/exr/facts/finfac.htm (last visited Sept. 2, 2006).
89. *Id.*
90. *Id.*
91. IMF Lending, *supra* note 81.
92. *Id.*

One such incident that garnered a whole host of complaints occurred at the turn of the century in Argentina. The IMF approved of Argentina's Convertibility Plan in April of 1991, which gave Argentina the ability to back every conversion of peso at parity with the U.S. dollar, despite (and because of) raising Argentine inflation during the same period.[93] External debt rose from $62 billion at the end of 1993 to $124 billion at the end of 1998, while the GDP only grew about 25 percent.[94] This situation was problematic.

The debt rose that high during a period of growth, and secondly, the government was unable to raise tax revenues to pay the increasing debt.[95] Third, the GDP growth was due to non-recurring privatization revenue, which meant it would not likely continue.[96] Fourth, the IMF was watching the whole thing transpire.[97] The IMF ignored substantial amounts of off budget loans borrowed by the government.[98] Argentina's growth was as a result of unsound fiscal policy and spending (an embarrassment because the IMF had the ability to press the government to change its fiscal policy and was monitoring the situation through the Convertibility Plan).[99]

How this relates to the IMF's new lending scheme relates to what happened as a result of Argentina's inability to pay its debt. Argentina had continuously failed to reign in its fiscal spending, despite efforts to correct its habits.[100] When Argentina threatened sovereign default, the IMF decided instead to give $14 billion of a combined $40 billion to bail out Argentina from defaulting on all of its creditors.[101] This method has been called "lending into arrears" and "seems to suggest that default shifts the balance of power in favor of the debtor."[102] This sort of risky loan maneuver nearly caused the capsize of Argentina's economy, its creditors, and potentially the IMF, but it also called into question the loan policies of the IMF. Additionally, the IMF's rollover of Argentina's debt may have created precedent for other nations to threaten sovereign default on

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93. Michael Mussa, *Argentina and the Fund: From Triumph to Tragedy*, INST. FOR INT'L ECON., Mar. 25, 2002, at 1, *available at* http://www.sussex.ac.uk/Units/economics/ma_int2/mussa.pdf.
94. *Id.* at 8 tbl.1. The figures were calculated by simply multiplying the percentage of total public debt by the GDP for the indicated years. The increase in GDP was approximately $62 billion for this same period, yet the amount of debt effectively swallowed this gain, as it grew in the same exact amount.
95. *Id.* at 10; *cf.* Rodlauer & Schipke, *supra* note 25 (demonstrating that none of the CAFTA-DR signatories, including Nicaragua and Honduras, have been able to raise their tax revenues over 16% of GDP).
96. Mussa, *supra* note 93, at 9.
97. *Id.* at 11-13.
98. *Id.*
99. *Id.* at 1.
100. *Id.* at 15-21.
101. *Id.* at 21.
102. Anna Gelpern, *After Argentina*, INST. FOR INT'L ECON., Sept. 2005, at 8, 9, *available at* http://www.iie.com/publications/pb/pb05-2.pdf. This article also discusses the plight of individual creditors suing the defaulting nation for judgment. In spite of the $62 billion windfall, these creditors in the United States managed to wrack up only $15 million in damages through lawsuits. *Id.* at 4.

their debts as well. After all, the IMF's purpose is to prevent these nations from stiffing their creditors.[103] Readers should keep this in mind as indicative of the IMF's changing fiscal policies, when considering the loans that the IMF makes to even more impoverished nations.

C. The PRGF

Lending in the IMF has changed with the advent of certain facilities or lending instruments.[104] The PRGF is one of the newest entries in the IMF's stable of loan agreements, but the high-risk nature has created some controversy to the investors, while the meddlesome conditions create controversy on the side of the impoverished nation.[105] Now, in spite of the recent trouble with Argentina, "[t]he IMF provides financial assistance to low-income countries experiencing balance of payments problems through its [PRGF]."[106] Founded in 1999, the PRGF is the IMF's way of reducing poverty and forcing member nations to spend IMF-loaned money on their nation's poor.[107] Additionally, less-developed countries with insufficient funds must basically become an IMF member, because private lenders require these countries to first acquire an agreement with the IMF before any of their lending agreements will be made.[108] These IMF agreements require structural adjustments forced on the borrowing country, making foreign aid a prerequisite.[109]

Regarding the creation of the PRGF, the IMF's own publications state that the PRGF was designed as a response to United Nations' concerns and goals to halve poverty by the year 2015, manifested by the Millennium Development Goals.[110] While the IMF presents a recapitulation of

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103. About the IMF, *supra* note 82.
104. IMF Lending, *supra* note 81.
105. PRGF, *supra* note 2.
106. IMF Factsheet, Apr. 2006: How the IMF Helps Poor Countries, http://www.imf.org/external/np/exr/facts/poor.htm (last visited Sept. 2, 2006).
107. PRGF, *supra* note 2.
108. Third World Traveler, *20 Questions on the IMF*, Multinat'l Monitor Mag., Apr. 2000, *available at* http://www.thirdworldtraveler.com/IMF_WB/20Questions IMF.html. In their defense, the IMF says "PRGF-supported programs are designed to cover only areas within the primary responsibility of the IMF . . . [including] advising on prudent macroeconomic policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration." PRGF, *supra* note 2.
109. PRGF, *supra* note 2 (discussing the structural reforms); *see also* How the IMF Helps Poor Countries, *supra* note 106 (discussing the PRSPs, the basis for the structural reforms that the PRGF operates). While the PRSPs will be further discussed, it is clear that they impose certain structural requirements on member countries. This paper will discuss other requirements of the PRSPs, which effectively give the IMF much more control over the shape and development of these emerging markets. *See* Where the IMF Gets Its Money, *supra* note 88 (for a discussion on why the PRSPs focus on certain key health and economic issues, i.e., the Millennium Development Goals).
110. IMF Factsheet, Apr. 2006: The IMF and the Millennium Development Goals, http://www.imf.org/external/np/exr/facts/mdg.htm (last visited Sept. 2, 2006). Obviously, the United Nations is defining poverty as absolute, rather than relative, poverty with a fixed poverty line. Under a relative poverty schema, poverty could never be reduced by half without taking half of the impoverished persons and

the Millennium Development Goals, the incorporation of them into the definition of the PRGF and PRSPs, submitted by member states, appears to be no more than altruistic.[111] Because the IMF is not a member of the United Nations, no one has asked the IMF to aid in the realization of these goals. While the IMF is, "[t]ogether with the World Bank [and twenty-five plus other entities], assess[ing] progress towards the MDGs [Millennium Development Goals] through an annual Global Monitoring Report," there is nothing in the IMF's own factsheet entitled "The IMF and the Millennium Development Goals" that demonstrates a mandate from the United Nations to use the PRGF loan structure to meet these goals.[112] The purpose of helping other nations achieve the Millennium Development Goals vis-à-vis the PRGF is still clear, even if a mandate from the United Nations is not. But, even with a clear intent, the IMF may not necessarily be approaching poverty reduction in the most beneficial or productive manner. That, however, is best seen by studying the application process. Just as food stamps cannot buy prescription drugs, these loans are restricted and require a lengthy application process by the member country.

D. PRSPs

Founded in 1999, the PRSP is the IMF's way of forming a contract with developing member nations.[113] These large, 100-plus page documents use empirical data, various quantifiable goals, and projections to show how a nation will reduce internal poverty.[114] The PRSP combats two of the IMF's problems with one bulky document. On the one hand, they silence detractors of the IMF's high-risk lending facilities by providing sound fis-

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immediately placing them with means equal to the low income (but not impoverished) persons. Halving relative poverty is, at the least, a more difficult task than halving from an absolute poverty line. Given the fact that halving absolute poverty by 2015 is not likely to be a met goal, it seems likely that the United Nations were not aiming for the more difficult task.

111. How the IMF Helps Poor Countries, *supra* note 106 (showing that the PRGF is based on a member nation's filing of a PRSP, which "[i]n addition to economic policies, PRSPs typically cover structural and social policies that are needed to improve health and education, safeguard the environment, and combat HIV/AIDS, malaria, and other diseases."); *cf.* The IMF and the Millennium Development Goals, *supra* note 110 ("The first seven goals focus on eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; and ensuring environmental sustainability."). Other than the promotion of gender equality, these goals are largely symmetrical.

112. The IMF and Millennium Development Goals, *supra* note 110; *see also* U.N. Econ. & Soc. Council [ECOSOC], Inter-Agency & Expert Group on MDG Indicators, *The Millennium Development Goals Report 2005, delivered to the General Assembly*, U.N. Doc. DPI/2390 (May 2005), *available at* http://unstats.un.org/unsd/mi/pdf/MDG%20Book.pdf (listing the other twenty-five plus entities that help the IMF and World Bank to provide data for the report).

113. IMF Factsheet, Sept. 2005: Poverty Reduction Strategy Papers, http://www.imf.org/external/np/exr/facts/prsp.htm (last visited Sept. 2, 2006) [hereinafter PRSP].

114. *See, e.g.*, NICARAGUA PRSP, *supra* note 7; HONDURAS PRSP, *supra* note 16.

cal policies and data to base developing-country loans on, while they also force the hand of the recipient developing country to agree to a strategy drafted by their own hand, so as to prevent any future misunderstanding. Filing a PRSP, however, is a lengthy process, requiring a developing nation to outline with some degree of specificity how it plans to the use the PRGF loan.[115] While this may seem a daunting task to a nation wrought with debt and the inability to provide basic necessities to 50 percent of its population, the IMF again provides aid, by having its own staff assist in the drafting of the PRSP. In spite of whatever assistance they provide, the PRSPs are founded on the principle that they are drafted by the countries themselves, making them national strategies.[116] As was mentioned earlier, Nicaragua and Honduras have both filed PRSPs. Nicaragua and Honduras' filings were conducted within one month of each other in 2001.[117] Each of these country's PRSPs follow a similar rubric, but the differences are contextual to each country's Millennium Development Goal deficiencies.

1. Nicaragua's PRSP

Nicaragua filed its first PRSP in July 2001, but the process had been underway a year earlier when Nicaragua filed its interim PRSP in August 2000.[118] The framework for the PRSP covers the gamut of Millennium Development Goal problems, compiles data from Nicaragua's past, and sets the goals for Nicaragua over the course of the next five years. Nicaragua identifies much of their problematic history and their problem areas, while providing short and medium-term goals. For example, Nicaragua's access to census data and poverty information, which is critical to assessing and determining the trajectory of poverty in the country, was simply not conducted during the 1980s decade of civil war and unrest.[119] As a result, the country has made many macroeconomic efforts to boost its economy and encourage trade, such as removing price controls set up in the previous regime.[120] While the first PRSP itself is not as helpful in chronicling Nicaragua's change due to the short period of data held prior to its drafting, the annual reports, and the present re-filing of Nicaragua's second PRSP in November of 2005 have opened a window

115. PRSP, *supra* note 113.
116. *Id.*
117. NICARAGUA PRSP, *supra* note 7; HONDURAS PRSP, *supra* note 16. It will be discussed later, but Nicaragua has since filed a replacement PRSP in November 2005, which is interesting because it came just before the data on its 2005 goals (from their initial PRSP) would be available. The next section will cover the resubmission of Nicaragua's PRSP in greater detail. *See* NICARAGUA PRSP II, *supra* note 65.
118. NICARAGUA PRSP, *supra* note 7, at v.
119. *Id.* at ix para. 2 (stating that Nicaragua's 1990 per-capita income level had plummeted to the same as it was in 1960); *see also id.* at 5 (discussing the difficulty in assessing income because of the lack of follow-ups on poverty indications and income information and pegging 1993 as the ground-zero point for most of the future changes to Nicaragua's poverty and income data levels).
120. NICARAGUA PRSP, *supra* note 7, at 16 para. 64.

for measurement.[121]

The initial PRSP does, however, provide data for the period from 1993 to 1998, which cites changes to poverty and attempts to ascribe causes to the slight shifts in numbers.[122] For example, favorable exports of sugar and coffee have helped rural farmers shrink poverty by 7 percent over this period.[123] Although Nicaragua's poverty nationally is 50 percent, the rural poverty in 1993 was over 70 percent.[124] Additionally, Nicaragua provides evidence of the country's economic downturn in the form of the horrendous decline in real per capita GDP from 1977 to 1993, where it fell from 11,000 *cordobas* to 4,100 *cordobas*.[125] Other measurements of pre-PRSP Nicaraguan poverty focus on the other Millennium Development Goals such as education, reducing family violence, hurricane-damage prevention, and malnutrition.[126]

The Nicaraguan PRSP compares the poverty reduction strategy of the 1980s with its current developmental goals based on market-based economics. Veiled in this is a comment about the failed redistribution of economic wealth that accompanied the Sandinista's attempts at social programming.[127] The strategies implemented by Nicaragua include plans to spend on poverty-related outlays and to increase school enrollment and evaluations, prenatal health care, children's health care (such as polio vaccinations), national potable water, and access to sanitation.[128] The first PRSP outlines Nicaragua's intention to use the PRSP money to aid the nation's tourist capacity and increase production-assisting technologies, demand-driven programs, and access to the nation's rural sections that feature the most poverty.[129] Regarding problems of sanitation, nutrition, and healthcare, Nicaragua plans to decentralize the education system, giving power and a new managerial system to local schools.[130] In addition, it plans to spend money on new health centers in areas with the

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121. NICARAGUA PRSP II, *supra* note 65.
122. NICARAGUA PRSP, *supra* note 7, at 8 tbl.1 (demonstrating that, from 1993 to 1998, poverty was reduced in most rural sectors but rose significantly in the coastal urban sectors. This data seems to demonstrate that a downshift in profits from farming could possibly create a problem when CAFTA-DR forces competition between local, rural farmers and imported products from the United States).
123. *Id.* at 7 para. 25. Keep in mind that CAFTA-DR does nothing to reduce tariffs on U.S. sugar imports, so these farmers will likely find that the open trade of CAFTA-DR is really not so open. This creates a problem for those seeking to bank on the further reduction of poverty through increases in the agricultural production of sugar as an export crop. *See* NEEDS OF RURAL POOR, *supra* note 22.
124. *Id.* at 7 fig.2. It should be noted that extreme poverty also dropped by 7 percent, lowering the ratio of rural extreme poverty to rural poverty in the process.
125. *Id.* at 13 fig.4. Additionally, the real per capita GDP has risen slowly but steadily to almost $5,000 *cordobas* in 2000.
126. *Id.* at 9-13 paras. 31-51.
127. *Id.* at 17 para. 69.
128. NICARAGUA PRSP, *supra* note 7, at 21-27.
129. *Id.* at 28 paras. 104-08. Additionally, the government notes CAFTA-DR's ability to reduce poverty, as well, by eliminating tariffs. These plans are extremely vague, but they do much to present Nicaragua as serious about reforming the country's spending towards capitalistic endeavors.
130. *Id.* at 30-32.

highest maternal and infant mortality rates, to increase access to potable water and childcare programs, and to help prevent malnutrition in children under two years of age.[131]

While these goals have the appearance of effective sound policy decisions, it should be noted that they are rather vague with regard to proactive measurements to be employed by the Nicaraguan government. The first Nicaraguan PRSP seems more concerned with setting up a measurement of poverty rather than reducing poverty.[132] Because of Nicaragua's deficiency with respect to social data, they seem instead to be investing in tools to analyze the poverty problem more fully before implementing a response strategy. There is no specific mention of how goals will be realized for those existing problems. The PRSP does not demonstrate some of their basic claims, such as what sites would be better for health centers or explanations for why previous measures have failed. Rather, the PRSP seems to be setting up the manner that Nicaragua may answer these questions. That being said, some of the correlations between poverty reduction and commerce found in the PRSP are unconvincing. For example, privately developed hotels in Managua do not themselves create a tourist industry, and such an industry is not likely to affect the rural poor, save through government spending.[133] Additionally, it is unknown how the government plans to implement some of the more costly-sounding measures, such as nutrition.[134] Though it claimed that reducing ignorance was the key to reducing malnutrition, it did not say how distribution of supplements and elementary school curriculum changes would be implemented to improve nutrition awareness.[135]

Notwithstanding such vague promises, the National Development Plan—the second PRSP, according to the IMF—presents mixed results over the three years of data conducted between 2001 and 2004. Nicaragua opens with an Executive Summary saying it allowed reforms of the economic branches of the government and also that "the fight against poverty has not been highly effective" and that this second PRSP is "designed to overcome the shortcomings" of the previous PRSP.[136] Nicaragua's Executive Summary attempts to honestly present a summary of its prior successes and shortcomings, though the PRSP's accompanying data presents few definite trends by itself. Nicaragua had a few years of lower-than-expected GDP, with two years of decreasing GDP, followed by an

131. *Id.* at 32-33.
132. *Id.* at 44 para. 180 (discussing the costs of monitoring and evaluation systems, not the responses to such systems).
133. *Id.* at 28 para. 104 (mentioning the fact that hotels have been built as an indicator of future economic success, which is arguably an indicator of economic growth and some new jobs).
134. *Id.* at 26 para. 96 (offering no explanation beyond saying that chronic malnutrition is bad and alluding to the possibility that spot nutrition surveys will be conducted).
135. *Id.* at 33 para. 129 (saying that because the impoverished allowed farm animals to share potable water, the government's efforts to increase potable water was wasted by the actions of the impoverished persons themselves).
136. NICARAGUA PRSP II, *supra* note 65, at 1.

increase in 2004.[137] Additionally, the advent of the PRSP actually seemed to slow economic development. While the percentage of citizens living in extreme poverty dropped by over 2 percent between 1998 and 2001, the percentage of citizens living in extreme poverty rose by nearly a percentage point between 2001 and 2004.[138] Similar changes occurred with the infant mortality rate, which dropped by 10 percent between 1998 and 2001, but rose by 2004.[139] Some goals that did see improvement between 2001 and 2004 were noticeably lower than the 1998 to 2001 time frame, such as the maternal mortality rate.[140] Additionally, the rate of primary schooling did increase slightly between 2001 and 2004, but it should be noted that it is increased sharply between 2001 and 2002, with a steady decline in the interim.[141] Some of this may be attributable to lack of growth in the entire economy, which Nicaragua has attributed to falling agro-export products and the 2001 banking crisis.[142]

Nicaragua has essentially reconstructed its earlier PRSP into a new and improved PRSP. Nicaragua recapitulated its earlier statements regarding fiscal policies with vague promises of earmarked funds towards certain problems. But, because there is no specificity in the earlier PRSP, there is no accountability for mismanagement of funds in the later document. For example, the first PRSP says:

> the government's [PRGF] program is ambitious; it will require outlays of about US$1.1 billion for the years 2001-2005[ ] or US$230 million yearly, of which US$100 million will be earmarked for compliance with the selected indicators. . . . While this PRSP cannot describe in detail the multitude of projects and programs included in the [PRGF], a summary of some of the key, major programs and projects is provided.[143]

The vague description of the programs, such as "US$90.0 million will expand the coverage and quality of the rural health system . . . [with a goal] to improve maternal/infant and adolescent care provided by the primary health network," makes the program meaningless when such expenditures do not present results; as the later PRSP simply says that collecting data in this area "continues to be a challenge" and a brief note that new health centers have been constructed.[144] The effect on poverty is therefore taken for granted, because these documents possess no

137. *Id.* at 7 para. 41.
138. *See id.* at 8.
139. *Id.*
140. For example, the maternal mortality rate for children under five decreased by 10 percent in the first three-year period but only by 3 percent in the following period. *Id.*
141. *Id.*
142. *Id.* at 1 para. 5. As discussed earlier, though sugar was not expressly mentioned, tariffs and competition through increasingly open trade might have led to a downturn for the Nicaraguan economy, which showed extreme vulnerability to its coffee and sugar exports.
143. NICARAGUA PRSP, *supra* note 7, at 49 para. 193.
144. *Cf. id.* at 50 para. 197; *see also* NICARAGUA PRSP II, *supra* note 65, at 48 para. 249, 61 para. 306, & n.138.

means for either the IMF or the casual reader to hold Nicaragua accountable for its spending practices.

2. *Honduras' PRSP*

Honduras' PRSP was filed one month after Nicaragua's in August 2001. Since then, Honduras has filed two subsequent PRSPs, the latter occurred in March 2005.[145] Unlike Nicaragua, Honduras' plan did not include for re-filing a new PRSP in 2005. Honduras is generally concerned with the same problems that plague Nicaragua, such as reduction of rural poverty and aid in land access by rural families to promote their own labor-intensive sources of funding. To combat this, Honduras has set up interior overseers for its poverty reduction efforts, outlining specific government entities such as the Poverty Reduction Fund and the Advisory Council for Poverty Reduction, both have specific charges and powers to help implement the PRSP.[146] In a sense, one major difference between Honduras and Nicaragua is that Honduras' poverty figures, such as infant mortality rates and education statistics, are continuous throughout the 1980s with no statistical gaps.[147]

We have already discussed briefly the character of Honduras economy in the section on CAFTA-DR. Before we consider the PRSP factors as they relate to poverty reduction, one other major extraordinary factor that affects Honduras' data is the devastation from Hurricane Mitch, which itself raised poverty in the country by nearly three percentage points in 1998 and also destroyed productive assets that contribute to its GDP.[148] Even though the GDP and per capita GDP shrank as a result of Hurricane Mitch, Honduras' economy has since rebounded.[149]

In its attempt to combat poverty and to satisfy the Millennium Development Goals, Honduras has, like Nicaragua, outlined a set of targets in keeping with the Millennium Development Goals.[150] In fact, the structure of Honduras' PRSP is very similar to that of Nicaragua's PRSPs, citing the history of the nation, the baseline indicators for poverty, the targeted areas for the Millennium Development Goals, the macroeconomic reforms and infrastructure improvements, and the social plans that the country will or has enabled to reduce poverty.[151] In addi-

145. REPUBLIC OF HONDURAS, HONDURAS POVERTY REDUCTION STRATEGY REPORT 2004 (2005), http://www.imf.org/external/pubs/ft/scr/2005/cr0582.pdf [hereinafter PRSP REPORT].
146. HONDURAS PRSP, *supra* note 16, at vi-vii paras. 31-34 (showing the nature of these two organizations, how they will be formed, who will comprise the legislative bodies, and what their purpose will be).
147. *See id.* at 38-39.
148. *Id.* at 18-20 (noting also that the costs of repair from Hurricane Mitch are in the hundreds of millions for dwellings and even more for productive assets). While the Nicaraguan PRSP made mention of Mitch too, it did not provide figures attributable to the hurricane's damage.
149. *Id.* at 21.
150. *Id.* at 51-53. These include, reduction of poverty, increasing school enrollment, and reducing malnutrition.
151. *Id.*; *cf.* NICARAGUA PRSP, *supra* note 7.

tion to the similarities in structure, the similar difficulty in attacking or addressing the merits of the expenditures is equally difficult in the Honduras PRSP and its 2004 Progress Report. Honduras' 2004 Progress Report (filed in early 2005) shows that poverty has dropped only slightly in the years since 2001.[152] In this latest PRSP report, figures on these indicators show that some improvement has been made regarding GDP and per capita GDP growth.[153] But, with respect to the poverty and extreme poverty rates, Honduras saw a decline overall, although both poverty and extreme poverty were short of the goals set up by the initial PRSP.[154]

The data for the individual goals is not measured qualitatively but through strict adherence to goals set up by the initial PRSP. For example, "[i]n education, the goals for preschool coverage were met in 2003 and 2004. In 2003, coverage was 37.7%, surpassing the goal of 34.9%, and 36.0% coverage was achieved in 2004, again surpassing the 35.7% goal."[155] Reading these goals for this particular example raises a number of questions, such as what criteria were used for setting the goals, does coverage mean more children are covered geographically-speaking or that more children are attending schools, and what is the quality of the increase in preschool coverage, i.e. does this coverage mean that new schools were erected or that students are being crammed into the same number of classrooms. Such incremental changes, while positive for the most part, are certainly less meaningful than if they had been coupled with some further explanation. While progress has certainly been made through the PRSP program in Honduras (and Nicaragua), the specificity of data from these PRSPs does not lend itself to meaningful analysis.

Honduras does, like Nicaragua, at least name some of the programs and amounts earmarked for certain industries, such as the Programa Nacional de Desarrollo Rurla Sustanable (PRONADERS).[156] This program has provided water resources and rural development projects benefiting nearly 300,000 families since the initial PRSP was filed.[157] Of note, the descriptions and benefits of the PRONADERS programs and the other

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152. PRSP REPORT, *supra* note 145, at 27 tbl.IV.4.

153. *Id.* As Honduras notes, the data between the 2003 and 2004 period was only eight months, due to the unavoidable nature of the data they had. This limits the effect of these indicators immensely, and Honduras promises more data will be delivered soon. *Id.* at 28 para. 48. Making major judgments based on these indicators is probably rash; the data in these indicators is from a very short period of time, and it is unclear how much they will demonstrate about Honduras' capabilities or efforts under the plan.

154. *Id.* These figures failed to meet the goal for both years, so when Honduras' poverty rate dropped from 66 percent to 63.5 percent between the starting figure and 2003, the figure was already still 1.4 percent higher than it should have been. When the poverty rate rose between 2003 and 2004, the gap between the goal and the observed poverty rate was all the more pronounced at four percentage points.

155. *Id.* at 29 para. 49.

156. *Id.* at 44.

157. *Id.*

Honduran programs are impressive, but they are not readily verifiable in the PRSP.

3. *Conclusion on PRSPs*

The PRSPs are an interesting form of social reform in that they adopt the framework of the United Nations with respect to measuring poverty and its indicators, but they adopt the fiscal macroeconomic policies of the IMF. While it is clear there is room for improvement, as even the IMF admits, the IMF does and should continue to tweak the fairly nascent PRSP system. Some of the problems evidenced by these countries are the inability to meet stricter goals, the lack of specificity in some of the country's PRSPs, and the fundamental lack of empirical evidence that the PRSPs are viable poverty-reducing strategies.

Regarding the first point, countries like Nicaragua and Honduras obviously need to have goals to reduce their poverty, and entities such as the IMF should be able to evaluate the usage of loans they make to these nations. But the PRGF could stand to be improved. The Millennium Development Goals in and of themselves are incapable of speeding up the process of poverty reduction. The way that poverty is measured requires many people who are unemployed, who have no education, or who have no potable water to, within a generation, become educated, to change eating, bathing, and other health habits, make more money than ever before, and be recorded by the government as now living above the poverty line. Once they are above the poverty line, the question of inequality between these people and the wealthy members of society enters the fray. In countries where poverty affects one-half to three-quarters of the population, the task is certainly daunting.

Second, the PRSPs provide less in the way of evaluative functionality because there is no framework for presenting how and where the money lent by the IMF will be spent. Obviously, to institute such a requirement would raise even more ire towards those already clamoring for the IMF to stop imposing its will on governmental reform. But it would help to have that sort of specificity recorded in the PRSPs. Without it, it is impossible to say whether a health center should have been placed in region one or region two; actually, it is impossible to say where health centers were installed at all. This complaint tugs at the balancing issue of how much money, time, and effort the member developing countries should spend on reporting, versus actually doing all they can to reduce poverty with their money and shortness of time. American businesses have shown how costly reporting has become under the Sarbanes-Oxley Act, and this is a similar framework. Moreover, because the IMF has analysts working with the member nations to provide assistance in gathering and interpreting data, perhaps some of these evaluations take place in fact but do not make the cut of the PRSP. Unfortunately, this inability to monitor more effectively is a problem with the IMF loaning money to countries

that need the funds so desperately that they do not have the time or spare funds to accurately report what they are doing with the loan.

The IMF PRSP structure is also problematic in that the IMF merely adopts the United Nations' data on poverty measurement and the United Nations' poverty reduction goals as indicative of success. This complaint targets a more fundamental node than what the member country does with their loan. It drives at the principles behind the IMF's assumptions on poverty reduction. In essence, there is little-to-no consensus on what poverty is or how it can be reduced effectively. The IMF is willing to take huge sums of money and throw them to the nearest developing nation even if that money runs the risk of not making a difference. These PRSPs and debt restructuring deals cost the other IMF member countries (principally the United States) many billions of dollars. Because the IMF is not qualitatively rating member nations' PRSPs, there is little room for saying whether Country A performed within the bounds of their PRSP. And moreover, there is no real way for the IMF to censure Country A for how it uses these funds, because there is no foundation for saying that Country A's methods are better or worse than the IMF's.

Additionally, the sheer volume of factors can easily create inconsistencies in data over a three-year period. Whether it is the result of a political climate, land monopolies, the wrong crop, a hurricane, or plain acts of ludicrous, greedy fiscal policy, or criminal embezzlement, these countries cannot simply be lifted out of these bad habits overnight, and sometimes the data affected by them will last for much longer than a three year period. While the IMF PRSP has demonstrated some effect in sobering member governments up to the realities of their expenditures, the PRSP is not a poverty-reducing mechanism in and of itself. It is a tool and a system of checks and balances. The trouble is that there is no consensus that it checks with enough specificity, or that it balances against a true paradigm of poverty reduction.

IV. CONCLUSION

Comparing CAFTA-DR to the IMF's PRGF and PRSPs, the differences in how they go about addressing poverty are readily apparent, but the effects are not. Seeking open trade with a neighbor versus receiving money to fund your own business are entirely different frameworks. But neither gives a clear indication about how it will cure deficiencies of the nation's individual. Consider again the discussion about individual poverty versus the national poverty. The first fallacy in this simple expansion is the fact that a nation is not impoverished. Poverty solutions there considered the curing of its own defects to be like a human being curing its own hunger. In reality, the nations themselves are seeking to cure many individual instances of poverty on a large scale.

CAFTA-DR is a system that only indirectly addresses poverty, by way of securing foreign capital investments and shifting markets in developing nations. In a way, the impoverished individuals can be totally left out of

the equation. This model rests on the presumption that markets will develop efficiently and evenly among the varied CAFTA-DR signatories, including satiating poor individuals. As has been casually mentioned, CAFTA-DR's theoretical basis for even development could be somewhat flawed, not only because of pre-existing differences in social dynamics among the different, lesser-developed countries (the pre-existing inequality that can create a shift in bargaining power), but also because of the remaining tariffs that will not be removed as a result of lobbying among certain groups, e.g., the sugar tariffs in the United States.

The IMF, on the other hand, takes a much more active stance on poverty, making individual poverty reduction the direct function of its PRGF. Unlike the result from CAFTA-DR, poverty reduction is likely to occur. The degree that it will, however, is unclear. Like an individual who has suffered lingering ailments from prolonged malnutrition, a nation cannot simply heal itself and become whole overnight. Change takes time, and it remains to be seen how effective per dollar spent these IMF loan packages really are. As heartless as it may sound, billions of dollars are given to these countries, largely by way of U.S. spending. This has created much resentment in the wealthier nations that back the IMF.[158] Some IMF detractors feel that the loan process should be revamped and converted into a grant program, whereby member countries earn grants for improvements based on good behavior.[159] The reason for such a change is the prevention of bogging member countries down in unpayable debt. This would serve as a "[c]ounter to the trend of lending blanket sums for indeterminate governmental plans."[160] It remains to be seen how the rising costs of the IMF will be offset by the benefits it affords these member countries by offering them low-interest loans over extended periods of time. But, regardless of the degree, it appears the loans are having some effect on reducing poverty and promoting stability in the region. Perhaps the costs of the PRGF are cheaper in the long-run than another armed conflict in the region. To the impoverished individual residing in their country, it definitely makes a difference.

158. The Meltzer Commission says that the IMF costs taxpayers $1.9 billion per year, an amount absent on the budget and deficit. The changing nature of the IMF, from a short-term, low-risk lender to a long-term, high-risk lender is cited as the reason the IMF now costs taxpayers money. Because the PRGF and the like charge a lower interest rate, the amount costs the U.S. taxpayers more than the 3 percent of a U.S. Treasury Bond. Adam Lerrick, *Funding the IMF: How Much Does it Really Cost?*, CARNEGIE MELLON Q. INT'L ECONS. REP., Nov. 2003, at 1, *available at* http://www.house.gov/jec/imf/11-18-03.pdf.

159. Adam Lerrick & Allan H. Meltzer, *Grants: A Better Way to Deliver Aid*, CARNEGIE MELLON Q. INT'L ECONS. REP., Jan. 2002, at 1, *available at* http://www.house.gov/jec/imf/grant.pdf.

160. *Id.*