

## Global Economy Definitions

**Globalization:** The process by which countries' economies become increasingly interwoven and affected by each other. This happens with the increased flow of goods (trade), foreign direct investment, money (finance), and/or people (migration). Globalization is not new, but the speed, depth, and scope of the changes, aided by technology, is new, as is the enormous power of International Financial Institutions (IFIs) and global trade groups such as the World Trade Organization (WTO) to set the rules of the global economy.

**Bretton Woods Institutions:** Collective name for World Bank Group and the International Monetary Fund (IMF), institutions established in 1944 at Bretton Woods, New Hampshire, USA, to assist with reconstruction and revitalization after World War II.

**International Financial Institutions (IFI's):** The generic name given to all financial institutions operating on an international level, ranging from development banks, such as the World Bank and the European Bank for Reconstruction and Development (EDB), and monetary authorities, such as the International Monetary Fund. These organizations give loans to governments for large-scale projects, restructuring and balance of payments on condition that they make specific changes that IFIs believe will boost economic growth.

**Structural Adjustment Policies (SAPS):** Policies imposed on countries by the IMF, World Bank and various regional development banks, as part of their loan conditionality. See conditionality below.

**Structural Adjustment Loans (SALS):** Large loans made by the World Bank or IMF to countries which may carry strict financial and budgetary obligations or required economic reforms intended to open the borrowing country's economy to private investment and increase their competitiveness in the global economy. Reforms tend to follow those outlined below under 'conditionality'.

**Conditionality:** Economic policies and criteria that countries must follow in order to obtain loans from IFIs. For Structural Adjustment Loans, conditionality typically consists of requirements that can have serious effects on working people and families, such as privatization, trade and price liberalization, fiscal austerity, the reduction of government spending including the elimination of subsidies for social services, local agricultural products and industry, and labor market flexibilization.

**Debt, Debt Service and Debt Relief:** Poor and middle-income countries have all accumulated debts over the last 20 years due to loans from commercial banks, other governments or IFIs. Some of these debts are "odious", a term used to describe loans made to corrupt dictators who used the money for military and/or personal gain. *Debt service* refers to the interest and principle payments made to creditors. Many countries can only cover the interest payments and are unable to bring down the principle (original loan amount). *Debt relief* is when a portion of a country's debt is cancelled.

**World Bank (International Bank for Reconstruction and Development):** The World Bank provides loans and development assistance to middle-income and lower-

income countries with a stated aim of reducing poverty. Loans generally have a 5-year grace period and must be repaid over a period of 15-20 years. The Bank obtains most of its funds through the sale of bonds in international capital markets. Though not a profit-making organization, it has earned a net income from its loans every year since 1948.

**Country Assistance Strategy (CAS):** Outlines the program of policy reforms and projects for which the World Bank provides loans. The CAS document describes the Bank Group's strategy based on an assessment of priorities in the country, and also indicates the level and composition of assistance to be provided based on the strategy and the country's performance on past loans.

**Country Policy and Institutional Assessment (CPIA):** A government's scores indicate the extent to which it has embraced key recommendations for restructuring which typically include liberalization, privatization, strict monetary and fiscal policies. While the Poverty Reduction Strategy (PRS) is key to determining a country's loan worthiness, the CPIA score carries more weight.

**Poverty Reduction Strategy (PRS):** Nationally-formulated economic and social policy strategies to reduce poverty. The stated goals of the PRS are to ensure broad stakeholder participation in formulating strategies, and improved coordination among development partners and donors to achieve poverty reduction goals. Though broad public consultations are supposed to deal with macroeconomic and structural matters, such as targets for growth and inflation, in practice, public input is usually confined to matters of social policy.

**Poverty Reduction Strategy Paper (PRSP):** PRSPs describe the country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty, and the associated external financing needs from IFIs and other sources. In order for a country to qualify for multilateral debt relief, it must produce a PRSP. While broad public consultation is essential for the PRSP to be considered legitimate, in practice, the final version of the 'Paper' may or may not reflect that external input. This has generated concern and critiques from civil society and elected officials in particular.

**Interim Poverty Reduction Strategy Paper (IPRSP):** Document which outlines actions the government intends to take to develop a full Poverty Reduction Strategy Paper (PRSP). It also contains details of intended macroeconomic policy reforms and may also include information on the country's poverty situation.

**Poverty Reduction Support Credit (PRSC):** World Bank loan program for countries in support of a Poverty Reduction Strategy Paper (PRSP).

**International Monetary Fund (IMF):** The IMF is an international organization of 183 member countries to promote international monetary cooperation and exchange stability; to foster economic growth and high employment; and to provide short-term financial assistance to countries to help ease balance of payments adjustments.

**IMF Letter of Intent:** Letter from a government to the IMF outlining planned economic reforms to be made in relation to receiving an IMF loan, including a matrix of conditions that must be implemented to access the IMF's resources.

**Poverty Reduction and Growth Facility (PRGF):** The IMF's concessional lending facility, which provides finance for Poverty Reduction Strategy Papers (PRSPs). The PRGF supports **PRGF Programs**.

**International Finance Corporation (IFC):** An arm of the World Bank Group that assists with private sector investments, primarily through mobilizing capital on international financial markets, and by providing technical assistance and advice to governments and businesses in developing countries. The IFC has 174 members investing in 78 countries, with 40 percent of its investments in the financial sector.

**World Trade Organization:** An organization based in Geneva, Switzerland, that monitors international agreements on trade, investment, government procurement, intellectual property and the like. Currently, more than 140 countries are members of the WTO. Technically, it operates by consensus of the members, but wealthy members such as the United States and European countries (also called the **G-8**) have the majority of political clout in negotiations.

*Source: The Bretton Woods Project and "Economics in Indonesia: What Every Worker Needs to Know," a training manual produced by The Solidarity Center.*