Supporting Accountability, Social Dialogue and Respect for Workers' Rights

Statement by Global Unions[1] to the 2007 Spring Meetings of the IMF and World Bank (Washington, 14-15 April 2007)

Introduction

1. Global Unions welcome steps taken by different divisions of the World Bank Group to ensure that Bank-financed activities do not contravene internationally recognized workers' rights. This statement calls on the Bank to take further measures to end the practice whereby, through assistance eligibility scores and country-level policy advice, countries are pressured to eliminate various types of workers' protection. Trade unions have participated in World Bank consultations on governance and anti-corruption, and invite the Bank to follow up on its commitments to work in cooperation with unions and civil society on this theme. The statement proposes immediate action by the international financial institutions (IFIs) to deliver debt relief to particularly vulnerable countries. Finally, it invites the International Monetary Fund (IMF) to demonstrate its capacity to respond to the major challenges faced by the global economy, including a possible economic slow-down, exchange rate instability and the destabilizing impact of private-equity and hedge funds, by developing new forms of international coordination and regulation.

Labour standards in IFI operations

2. The international trade union movement has been urging the World Bank and IMF to take measures to ensure that their operations and the projects they finance do not violate the International Labour Organization's core labour standards (CLS)[2], upheld in the ILO's Declaration of Principles on Fundamental Rights at Work adopted in 1998, requiring that all ILO member states observe those standards. The Bank took some important steps on this matter in 2006. **Since May, the International Finance Corporation (IFC), the Bank's private-sector lending arm, has required that IFC clients abide by CLS and some other basic labour requirements. This was followed by an announcement in December by the World Bank's president that the Bank would apply CLS in infrastructure projects financed by the Bank, notably through the inclusion of all four CLS within the Bank's Standard Bidding Documents for Works. The ITUC and GUFs have offered their cooperation to the World Bank**

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[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 168 million members in 153 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, ICEM, IFJ, IMF, ITF, ITGLWF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

[2] Core labour standards are internationally-agreed fundamental human rights for all workers, irrespective of countries' level of development, that are defined by the ILO conventions that cover freedom of association and the right to collective bargaining (ILO Conventions 87 and 98); the elimination of discrimination in respect of employment and occupation (ILO Conventions 100 and 111); the elimination of all forms of forced or compulsory labour (ILO Conventions 29 and 105); and the effective abolition of child labour, including its worst forms (ILO Conventions 138 and 182).

Group and for full implementation of the new measures put in place by the IFC and those announced by the Bank's president.

3. Recognizing that labour constitutes the principal or only asset of most poor people, some World Bank reports have established links between violation of CLS – such as child labour, discriminatory practices in the labour market and denial of workers' right to organize – and the persistence of poverty. The ILO has defined the standards as important tools for improving the income and living standards of workers and their dependents. Given that poverty reduction constitutes the Bank's priority goal, World Bank country reports should pay particular attention to specific problems of violations of CLS in the country. Since the 1999 donors' replenishment agreement for the World Bank's concessionary lending arm, the International Development Association (IDA), Bank staff have been instructed to include assessments of compliance with CLS in *Country Assistance Strategies* (CAS). In reality, most CAS for IDA countries do not include such assessments. **Global Unions recommend that the Bank systematically prepare comprehensive assessments on CLS compliance, in cooperation with the ILO, in all of its CAS documents.**

Inconsistent approach to labour standards

4. Unfortunately, the World Bank's commitment to promoting the observance of CLS is inconsistent. For example, in November 2006 the Bank published an *Essay on Economic Reform and Social Change in China*, which speaks disparagingly of "so-called 'labor standards' " and advises the government to view CLS as "threats" to China's export capacity and to comply with them only to the minimum extent that may be necessary to avoid "provoking protectionism". Since 2003, the Bank has prepared assessments of countries' labour regulations in its annual *Doing Business* publication, which has given among the top scores for their labour regulations to countries that routinely violate CLS. **In its 2006 and 2007 editions, *Doing Business* awarded the best performer designation for their labour regulations to countries that are not even ILO member countries, Palau and the Marshall Islands**.

5. As documented in trade union reports submitted to the World Bank, *Doing Business* has been used as a template by the World Bank and IMF to pressure developing countries to deregulate their labour markets. A recent example is the Bank's December 2006 *Country Partnership Strategy* for Peru, where the government is told that *Doing Business* has determined the country's labour regulations to be "cumbersome", and that attainment of a "milestone" for increased Bank assistance will depend on Peru improving its *Doing Business* ranking. **Global Unions recommend that the labour flexibility indicators be removed from the *Doing Business* survey owing to their methodological irrelevance and their misuse as a pretext for removing fundamental workers' protections.**

Labour market regulations in the CPIA

6. The *Doing Business* labour market flexibility indicators are also used as a "Guidepost" in two sections of the Bank's Country Policy and Institutional Assessment

(CPIA), which the Bank uses to determine countries' overall eligibility to assistance from the World Bank's IDA. According to the questionnaire used by the Bank to calculate countries' CPIA scores, Bank staff are instructed to count the *Doing Business* labour market flexibility indicator twice, once under the category of "Social Protection and Labor", and once under the category of "Business Regulatory Environment".

7. Another "Guidepost" Bank staff are instructed to use to calculate the CPIA and countries' eligibility to assistance is the *"Economic Freedom Index"* published by the Heritage Foundation, which, by its own definition, is a conservative "think tank" whose mission is to promote "free enterprise, limited government, a strong national defense, and traditional American values". For its 2007 edition of the *Economic Freedom Index*, the Foundation decided to adopt the *Doing Business* indicators to measure degrees of "labor freedom", which means that the ***Doing Business*** **labour regulation criteria are now counted in triplicate to calculate the CPIA**. Prior to this recent revision, the *Economic Freedom Index* defined economies to be un-free if any of the following regulations exist, unless they are at a "minimal" level: minimum wage, established workweek, paid vacation, parental leave, and other labour regulations. Additionally, the Index defined economies to be un-free if government expenditure exceeds 5 per cent of GDP.

8. According to figures in the Bank's *World Development Indicators 2006*, the only country that appears to meet the Heritage Foundation's ideal level of government expenditure is Burma, a country whose military regime has kept public spending down by conscripting large numbers of its citizens into unpaid forced labour. Ironically, the CPIA professes to give better scores to countries that observe the CLS and apply labour market regulations, and to active labour market policies that promote broad access to employment as well as social protection. However this is contradicted by using the *Doing Business* indicators as guideposts for CPIA scores, indicators that reward countries for having the least level of labour regulation, as well as the *Economic Freedom Index*, which idealizes a pre-20th century conception of the role of labour regulation and government.

9. **The World Bank should bring coherence into its policies on labour by ending the use of retrograde assessments (where all labour regulations are defined as obstacles to development) to determine levels of eligibility to Bank assistance and as templates for the IFIs' country-level labour market reform proposals. Instead, the IFIs should support decent work strategies that put creation of jobs providing adequate income, social protection and workers' rights as development priorities. Hence, they should act on the call by governments at the UN General Assembly in 2005, the UN ECOSOC High Level Segment in 2006, and the UN Commission for Social Development meeting in February 2007 to mainstream the goals of full and productive employment and decent work for all in their policies, programmes and activities. As an important step in this process, jointly with the WTO, ILO and other UN bodies, the IMF and World Bank should participate more fully in the Policy Coherence Initiative, which was created in follow-up to the 2004 report on the World Commission on the Social Dimension of Globalization. Any Fund or Bank involvement in labour reforms should require that the reforms be based on**

tripartite dialogue involving unions, employers and government, and are consistent with the core labour standards and with other ILO conventions ratified by the country.

Cooperation with unions on governance and anti-corruption initiatives

10. Global Unions welcomed the World Bank's efforts to consult trade unions and other civil society organizations during the revision of *Strengthening World Bank Group Engagement on Governance and Anticorruption* (GAC Strategy) and its commitment to integrate the concerns of trade unions and others into the final document. Now that the consultations have concluded, the World Bank must move beyond rhetorical support for the importance of engaging with civil society organizations and endeavour to work with trade unions on an ongoing basis during the implementation of the GAC strategy both globally and on the country level. Global Unions emphasize the importance of a country-led approach to GAC implementation that addresses not only the responsibilities of the client country, but also recognizes the responsibilities of donors and the private sector in combating bribery and corruption.

11. That the new GAC strategy fails to acknowledge that trade unions, particularly those in the public sector, are valuable partners in the fight for better governance is a major shortcoming. The strategy focuses too much on the potential of the private sector as a "strong source of demand for better governance" and ignores the potential of workers and trade unions as advocates of good governance. As trade unions in Guinea recently demonstrated when they carried out a national strike against a corrupt regime, trade unions have the capacity to organize and mobilize the public to demand government accountability and action against high-level corruption.

12. In its efforts to foster good governance, the World Bank must pay increased attention to whether civil society is allowed to function without interference and press freedom is respected in its client countries, and in particular, whether workers have the right to organize unions. Unfortunately, the GAC strategy pays scant attention to the importance of protection of trade union rights as a means to counterbalance corrupt influences in both the public and private sector. Global Unions call on the World Bank to take immediate action when governments repress trade unions, civil society organizations or the media. The World Bank should not hesitate to publicly criticize or sanction governments that suppress the rights of citizens to form unions, organize public demonstrations and exercise freedom of speech.

13. While promoting good governance at the national level, the World Bank must also work to combat corruption at the local level. **In all World Bank projects and lending operations, thorough and regular consultation with relevant trade unions and other civil society groups can improve monitoring and oversight, resulting in reduced corruption and better development outcomes. The Bank should also seek to ensure that "whistleblowers" who report fraud and corruption are protected from reprisal, regardless of whether they are Bank employees, public service workers or employees of local contractors. The Bank must also increase the transparency of its**

own operations and thus set an example for governments when it encourages them to increase transparency and accountability.

IMF must improve consultation, increase openness

14. The IMF, too, can play a more positive role in support of good governance. Like the World Bank, it must seek to ensure better transparency and openness in its operations, especially through regular consultations with trade unions. **Global Unions urge the IMF to expand the consultation process beyond discussion of Article IV reports and to consult trade unions and other civil society organizations during negotiation of loan agreements. That lending operations are still discussed in confidence between the government and the IMF without civil society input is a significant impediment to ensuring that borrowing governments are accountable to their citizens.**

15. Improved consultations between the IMF and trade unions can contribute to more appropriate IMF policy recommendations for client countries. Global Unions have long criticized IMF policy recommendations and conditions for discouraging equitable development and undermining the autonomy of member countries. Conditions for government spending caps and conditions or policy advice on privatization or labour market deregulation are of particular concern to trade unions, as they can hamper states in their efforts to achieve the Millennium Development Goals.

16. Although the IMF has reduced the number of conditions on its loans, conditionality attached to IMF lending remains excessive and continues to require that states undertake unpopular and harmful reforms. A 2006 study published by the Norwegian foreign affairs ministry found that 26 of 40 IMF Poverty Reduction and Growth Facility programmes included conditions demanding either privatization or liberalization, often of energy utilities. A 2006 report prepared by the European Network on Debt and Development had similar findings, and additionally observed that 56 per cent of IMF conditions in the programmes it studied required major public sector reform, such as decentralization or changes to employment conditions of public sector workers.

17. Policy conditions like these are driving countries away from the IMF, leading some clients to settle their debts ahead of schedule and end their borrowing relationship with the Fund. In just a little over a year, the Fund lost some of its most important clients – Brazil, Argentina, Indonesia, Uruguay, and most recently, Ecuador – when each announced that it would pay back outstanding debts early and completely. Though most of the states that have chosen to cease borrowing from the IMF are economically stable enough that they do not need to rely on the Fund's assistance, the IMF could find that more vulnerable states are also willing to forsake IMF aid, turning instead to emerging bilateral lenders.

IFI conditionality and alternate sources of financing

18. Spokespersons for the IMF and World Bank and many others have expressed concern about the recent rapid increase of lending from Chinese banks to Sub-Saharan African

countries. It has been alleged that social and environmental standards associated with IFI assistance are the cause of this upsurge in Chinese lending and some have suggested that standards should be diluted. This suggestion appears to be based on a false diagnosis. The complaints one hears from the vast majority of African governments about assistance from the IFIs and donor countries concern, not the social and environmental standards, but the economic policy conditionality attached to many loans and the fact that donors have not lived up to promises, made at the Monterrey *Financing for Development* conference in 2002 and the G7 summit in 2005, to rapidly scale up the volume of assistance to Africa and other low-income developing countries.

19. Global Unions believe that African countries have legitimate grievances regarding both the volume of concessionary lending and grants and the use of economic policy conditionality. For example, the IMF and World Bank have regularly praised Uganda over the past 15 years as a model to follow because it closely abided by the IFIs' structural adjustment programmes, involving massive privatization and strict limitations on government expenditures. These policies have entailed a severe lack of investment in infrastructure that has led to the current situation where, in the words of the IMF's *Uganda: 2006 Article IV Consultation and Staff Report*, "Uganda's indicators for road and railway infrastructure are among the worst in Africa … [T]his poses considerable cost disadvantages" for Ugandan exporters and has become a significant obstacle to the country's economic development. Other African countries are understandably sceptical of having to abide by IFI conditions to liberalize and privatize.

20. In Latin America, countries are seeking alternative sources of development financing after having similarly suffered from inappropriate IFI structural adjustment conditions and policy advice. For example, several Latin American countries were pressured by the World Bank into partially or totally privatizing their public pensions or social security systems. The recent *Evaluation of World Bank Research, 1998-2005* described the process by which the Bank pushed its pension reforms as "Overselling first the value of privately-managed individual accounts and then of non-financial defined contribution systems" for motives "largely driven by ideology, without concern for the particular circumstances of the country". It should be noted that, since the 1990s, Latin American trade unions have been denouncing the practices used by the World Bank to promote its preferred pension privatization model.

21. It is a misrepresentation to characterize current popular and, in some cases, government resistance in Africa, the Americas and elsewhere to these kinds of economic policy conditions as opposition to environmental, social and anti-corruption standards. **Global Unions have opposed economic policy conditions such as privatization, but have consistently supported measures to ensure that the assistance contributes to the development process, including controls against corruption or other misuse of IFI financial support, as well as safeguards to guarantee that IFI funds do not contribute to environmental destruction or violation of workers' or human rights.**

Immediate debt relief for the most vulnerable countries

22. Full implementation of the Multilateral Debt Relief Initiative – by which the debts owed by several poor indebted countries to the IMF, World Bank and African Development Bank were cancelled in 2006 – could be among the most important steps that the IFIs have taken to make progress towards the Millennium Development Goals. Sadly, the benefits of debt relief are still being denied to the countries in the direst circumstances. Countries like Haiti and Liberia, emerging from years of strife and violence, are in desperate need of debt cancellation. Although some donor governments have recently voiced support for granting immediate debt relief to these countries, the process of cancelling these countries' debts has been held up by administrative red tape and burdensome conditionality.

23. Liberia, whose external debt totals $3.7 billion, has been told it must settle its arrears, interest, and other penalties with the IMF and World Bank before it is eligible to obtain any debt relief. Haiti, which would be eligible for a paltry $56 million (in net present value terms) in debt relief from the IMF and World Bank under the HIPC programme, will not see the debt reduction until 2009 because it has not yet complied with the programme's numerous conditions. With total external debt of $1.3 billion and 80 per cent of its population living in absolute poverty, Haiti cannot afford the delay.

24. The IMF and World Bank must take a more flexible approach to debt relief for post-conflict and other vulnerable countries so that Haiti, Liberia, and others quickly receive the aid they need. While recognizing the IFIs' need to ensure debt sustainability**, Global Unions urge the Bank and the Fund to do away with unreasonable conditions and requirements that are delaying the cancellation of impoverished countries' debts. Global Unions call on the IMF and World Bank to eliminate the strict conditionality of the HIPC programme in these cases, and instead adopt an approach that includes ongoing monitoring and cooperation with the countries.** In countries like Haiti, where stability and debt sustainability is of particular concern, increased technical assistance and capacity building should replace rigid HIPC conditionality as the means to ensure that the benefits of debt relief will be delivered to poor citizens.

The role of the IMF

25. Many questions have been raised about the future of the IMF in light of the growing number of middle-income developing countries that have reimbursed their loans over the past eighteen months, with the result that the Fund's income from interest payments on loans has been sharply reduced. An eminent persons' *Committee to Study Sustainable Long-Term Financing of the IMF*, whose report includes the projection that the Fund's annual financial shortfall could reach almost $400 million in 2010, was specifically instructed only to examine means for increasing the Fund's revenues, not to look at possible cost-cutting measures. More than one observer has noted that the Fund appears to be reluctant to take its own medicine, which is to regularly advise governments that encounter financial problems that they must live within their means and reduce their expenditures.

26. Another report by external advisors, the recent *Report of the External Review Committee on Bank-Fund Collaboration,* called on the IMF to narrow its scope by ending long-term lending to low-income developing countries. It also questioned why the Fund gets involved in questions such as labour market issues, which are outside of the IMF's areas of responsibility and expertise. It is certainly debatable why an institution whose mandate is dealing with international monetary and financial issues, and which faces a huge operating deficit, should devote the resources of its research staff to exploring the theme *"Are the French Happy with the 35-Hour Workweek?"* so as to determine that apparently, as a recent issue of the *IMF Survey* noted, "French workers did not become happier after their workweek was reduced".

27. The international trade union movement has always supported the need for a multilateral institution whose mandate is to prevent international financial crises and to help countries protect their economies against destabilizing external impacts. In view of recent volatility in equity markets and signs of a possible slow-down in major economies, the adoption of such measures is becoming more urgent, as is the perspective that some countries may default on their international debt payments.

28. The emergence of private-equity and hedge funds as a major factor in massive international capital flows – with hedge funds accounting for between one third and one half of all daily trading in many stock exchanges – demand that particular attention be paid to the phenomenon. Indeed, the comments by various heads of state, finance ministers and central bank governors that hedge funds and other leveraged activities resembling those of such funds represent a "black hole" in international financial markets, which they observe is growing but have no clear understanding of, should be seen as an invitation for the IMF to use its expertise to analyse these phenomena and to contribute to developing appropriate regulatory frameworks. Regulatory reforms should work towards establishing transparency rules over the performance of private-equity firms, recreating a level playing field with regard to prudential rules, and adapting tax regimes to ensure that taxation is either neutral or biased toward long-term ownership.

29. Global Unions encourage the IMF to support the following measures:

- **Closer coordination of exchange rates among major currencies, which could be addressed through the IMF's multilateral consultation process**
- **Creation of a new emergency credit facility for countries in financial difficulty, unhampered by the policy preconditions that rendered the former Contingent Credit Lines unusable**
- **Initiation of a process to develop international regulatory frameworks for private-equity funds, hedge funds and related financial activities that risk destabilizing international markets, which would include consultations with trade unions and other interested civil society groups in addition to private financial institutions**
- **Creation of a fair and transparent sovereign debt restructuring mechanism for orderly work-outs of debts owed mainly to private financial institutions**

- **Measures to protect national economies against destabilizing speculative capital movements, including a Tobin tax and support for capital controls put in place by national governments.**

Conclusion

30. Global Unions welcome certain steps taken by the IFIs towards achieving the Millennium Development Goals and respecting workers' rights. Implementation of debt cancellation for several poor indebted countries by both the IMF and World Bank and the incorporation of core labour standards in some World Bank Group project lending represent contributions to the goals of ending poverty and contributing to broadly shared growth. However, Global Unions express serious concern about the IFIs' inconsistent approaches to promoting equitable development. Through the use of highly biased indicators on labour market regulations in its *Doing Business* publication and its Country Policy and Institutional Assessment (CPIA) exercise, the World Bank continues to effectively condition its aid on labour market deregulation, thereby undermining efforts to support decent work and improved social protection.

31. The IMF, despite its efforts to streamline conditionality, continues to attach burdensome economic policy conditions to its loans. Rather than attempting to micromanage client countries' budget and policy decisions, the Fund should focus attention on pressing issues such as developing a workable crisis facility and controls against the destabilizing effects of private-equity and hedge funds. Faced with emerging bilateral lenders that offer the promise of "no-strings-attached" financing, the IFIs should not seek to compete with these lenders by lowering standards. Instead, the IMF and World Bank must ensure that their assistance contributes to sustainable and equitable development through use of controls against corruption and misuse of funds, safeguards to protect against environmental destruction or violation of workers' or human rights, and close alignment with country development goals as determined through extensive public consultation.

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