The Role of the IFIs in Supporting Decent Work and Countering the Risks of Financial Globalisation

Statement by Global Unions[1] to the 2007 Annual Meetings of the IMF and World Bank (Washington, 20-22 October 2007)

Introduction

1.Faced with waning interest from middle-income countries and new competition in low-income countries from emerging lenders, both the International Monetary Fund and the World Bank must achieve some credibility as democratic institutions dedicated to fighting poverty and achieving sustainable development if they are to retain a place in the global economy. Recent changes in leadership at both institutions have drawn the criticisms of many governments and of civil society organisations around the globe that see the exclusion of candidacies from the developing world as evidence that the international financial institutions (IFIs) continue to dictate, rather than listen, to the poor countries they purport to serve. **Global Unions express their regret that the new leaders of the IMF and World Bank were not chosen through a fair and open process and would stress that the leadership selection process is a symptom of a larger crisis of relevance and accountability in the IFIs.**

2.As inequality increases worldwide, it is more imperative than ever that the IFIs refocus their work on supporting developing countries' attempts to achieve the Millennium Development Goals and improve the lot of the "losers" of economic globalisation. This statement calls on the World Bank and IMF to make real changes in their policies to achieve these outcomes. Specifically, it insists that they cease to use dubious evidence in support of labour market deregulation to impel countries to do away with workers' protection, and instead envisions a role for both IFIs in promoting decent work. It supports increased policy coherence between the IFIs and other UN organisations, and calls for an end to harmful economic policy conditionality that

[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.

undermines countries’ progress to create decent jobs and promote equitable development.

A missed opportunity for democratic reform

3.As the international trade union movement has frequently asserted, the IFIs could play a positive role in ensuring equitable globalisation if they improve their accountability, transparency and responsiveness to the needs of developing countries. The recent departures of the heads of both the World Bank and the IMF presented an opportunity to make some of these crucial improvements. The leadership crisis at the World Bank and the unexpected resignation of the managing director of the IMF could have been an ideal occasion for the IFIs to demonstrate their commitment to good governance by implementing a transparent, merit-based search for new leadership and by opening the process to candidates from all countries.

4.The IFIs shirked the standards of good governance they so frequently demand from their clients, choosing instead to stand by the archaic and undemocratic tradition by which the United States designates the president of the World Bank and European countries select the managing director of the IMF. Although the IFIs espouse the importance of “country ownership” of development strategies, the fact that their most powerful board members refused to open the selection process to candidates from all countries calls into question the IFIs’ commitment to developing countries’ being able to choose their own development strategies and leaves both institutions vulnerable to charges of hypocrisy.

5.It is not particular leaders that are at fault, but rather a selection system that suggests that the IFIs, dominated by a small group of countries and often promoting a free-market fundamentalism that industrialised countries would never apply to the same degree at home, know better than their “client” countries what is good for them. It also **reinforces the view that the IFIs are accountable above all to the most powerful economic blocs, not to the populations of developing countries directly affected by IFI policies and projects.** The reluctance of the IFIs to engage in a reform of their decision-making structures that would substantially increase the representation of low-income countries, despite the fact that they are most affected by the activities of the IFIs, is another sign of the good governance deficit at the IFIs.

6.Global Unions regret that neither the World Bank nor the IMF heeded the call for revision of the leadership selection process, which came not only from developing country governments and international civil society, but from within the IFIs themselves. In 2001, the executive boards of both institutions endorsed, but never adopted, a joint report calling for “a more transparent and open selection process”, which included a recommendation to create a geographically-balanced advisory group of eminent persons to help select candidates. To the detriment of the credibility of both institutions, these recommendations were ignored during the subsequent leadership appointments at the IMF in 2004 and the World Bank in 2005. Although the debacle of the Wolfowitz presidency demonstrated the risks inherent to the absence of a merit-based selection procedure, the reform proposals were once again ignored during the leadership changes at both institutions in 2007.

A challenge for the new leaders

7.Despite their criticism of the selection processes at the IFIs, Global Unions look forward to the opportunity of achieving change in IFI policies with the new president of the World Bank and new managing director of the IMF, focusing in particular on making the policies relevant to the needs of the “losers” from economic globalisation. Many countries that faithfully applied IFI strictures to privatise, liberalise and deregulate have missed out on the recent economic expansion in most regions of the world, leading to fundamental questioning of the policies. Additionally, almost all countries have experienced increasing inequality, such that the Millennium Development Goals (MDGs) are far from being attained. Much more attention must be paid to the question of how the benefits of growth are shared and used, not only to maximising the short-term rate of growth.

8.It is apparent that both institutions face considerable challenges. The tarnish of the recent leadership crisis still taints the World Bank, while the IMF continues to falter as it searches for new sources of revenue and a revamped mandate. Rapidly growing inequality within almost all developing countries shows the limits of the World Bank’s claim to have prioritised poverty reduction, while current threats to global economic growth demonstrate once again that IMF is largely unprepared – just as it was during the Asian crisis ten years ago – to protect economies against the impact of international financial instability. With attention towards these challenges, **Global Unions urge the new heads of the IFIs to adopt the following recommendations of the international trade union movement:**

- **Undertake a reform of the IFIs’ decision-making structures so as to increase the representation of developing countries, particularly of the low-income**

members that are currently most under-represented (only two executive directors represent Sub-Saharan Africa as compared to thirteen from OECD countries); **make their operations more transparent – for example, by publishing full reports of board meetings; and introduce an open and merit-based selection procedure for the heads of the institutions.**

- **Make the IFIs more open and accountable to the public they serve by improving consultations with trade unions and other representative civil society organisations**. While advances in consultation between Global Unions and the IFIs have been achieved through regular dialogue at the headquarters level, country-level dialogue continues to be inconsistent. Trade unions and other organisations must be systematically consulted during discussion of IFI country strategies and reports, and also on loan conditions and specific projects.

- **Increase coherence between the IFIs and other multilateral organisations, including the International Labour Organisation (ILO), to speed progress towards the achievement of the MDGs and realisation of the Decent Work Agenda, meaning the creation of jobs that provide adequate wages, social protection and respect of the core labour standards**. Currently, the ILO has made a priority of helping its 180 member states implement this agenda, but IMF and World Bank policy recommendations in favour of labour market deregulation frequently undermine it. Both the IMF and World Bank should participate more fully in the Policy Coherence Initiative created in response to the 2004 report of the World Commission on the Social Dimension of Globalisation.

- Recognise the damage done by structural adjustment and austerity policies by moving away from the use of harmful economic policy conditionality in future lending operations. For example, through loan conditions the IFIs have forced the African country of Mali to eliminate subsidies to cotton farmers (in spite of the fact that industrialised countries heavily subsidise agriculture), a measure that the World Bank calculates will increase poverty in the country by close to 5 per cent. Many loans still include conditionality stipulating that public services must be opened to private sector participation, despite numerous failed privatisations, for example of water services. **Both IFIs should do away with harmful economic policy**

conditions – including those disguised as "performance criteria", "prior actions", "structural benchmarks" or "triggers" – and follow through with their commitment to country ownership by adopting an approach that allows countries to pursue their own policies to create jobs and promote equitable development.

Labour standards in World Bank operations: Steps for full implementation

9.The international trade union movement supported the decisions taken within the World Bank Group to make adherence to the core labour standards (CLS) a requirement in all International Finance Corporation (IFC) lending and in World Bank infrastructure financing. Global Unions encourage the World Bank to take the lead among other multilateral development banks in promoting CLS in public procurement and private sector operations.[2]

10.**The World Bank must now take the necessary steps to ensure that the new CLS requirements are fully implemented in every project, so that this important commitment to protecting workers' fundamental rights is not reduced to a hollow promise.** More than a year after the IFC's adoption of the CLS requirement in its performance standards, it is clear that satisfactory implementation of the standard remains a challenge. Global Unions recognise that IFC staff are still building knowledge of the CLS and their implications, but express concern that CLS violations in IFC projects may be occurring in the meantime. The IFC needs to consult with relevant trade unions early enough in the project cycle so that IFC staff are aware of any potential labour risks in its projects. Global Unions further call on the IFC to respond swiftly to allegations of CLS violations in IFC projects brought forward by workers and their unions.

11.As the World Bank begins to implement the new CLS requirement in its Standard Bidding Document for Procurement of Works, Global Unions must be involved by the Bank in order to achieve successful application. Ensuring that the requirement has a meaningful and positive impact on World Bank infrastructure projects will necessitate that the Bank educates its staff on CLS, carefully monitors its

[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).

infrastructure investments and stipulates open communication with relevant trade unions at the country level.

Potential impact of country systems approach

12.The international trade union movement is concerned that the momentum behind observance of CLS in IFI-financed projects could be lost as multilateral development banks begin to rely on client countries' own legal and institutional systems for procurement and social and environmental safeguards instead of requiring countries to adhere to IFI standards. Known as the "country systems approach," this devolution of responsibility could contribute to increasing countries' autonomy from IFI conditions and to their ownership of development projects. However, **the World Bank must not prematurely delegate responsibility for labour and other social and environmental standards in Bank projects to countries that do not yet have the technical and institutional capacity to enforce them.**

13.Global Unions urge caution with the country systems approach, and insist that the decision to use country systems not simply be based on the mere existence of adequate laws and regulations in a country, but also on that country's capacity to use and enforce them effectively. Thus, when the Bank is assessing the adequacy of a country's procurement and safeguard systems, it must not only consider whether or not there is a requirement on CLS adherence in the country's standard bidding documents, but also whether the country can protect basic labour and human rights. The Bank should involve the ILO when making this assessment. **Where necessary, the World Bank must intervene directly to ensure that there is full application of the CLS requirements in Bank-financed projects.**

The Bank must address inconsistencies on labour issues

14.The steps noted above that the World Bank has taken to ensure that the activities it finances do not violate CLS are undercut by the Bank's most widely circulated publication, *Doing Business*, which promotes the view that labour standards have no beneficial impact but should only be seen as possible impediments to investment because they may increase the cost of doing business. In its 2006 and 2007 editions, *Doing Business* granted the status of best performer for their labour regulations to two countries that are among the handful of states that are not members of the ILO. These two small countries, Palau and Marshall Islands, have almost no labour regulations of any kind and, as non-ILO members, are not required to abide by the CLS.

15.*Doing Business* grades and ranks countries according to whether they have various kinds of worker protection rules – ranging from limitations on hours of work, to minimum wages and requirements for advance notice of dismissal – and encourages countries to improve their ranking by eliminating these regulations. Countries can only improve their "rigidity of employment" and "firing cost" indices, so as to improve their overall *Doing Business* ranking, by eliminating worker protection regulations. Despite the fact that many World Bank Group loans now include CLS requirements, no points are given for abiding by these standards. As a result, **such regular violators of fundamental workers' rights as Bangladesh, Belarus, China, Colombia, El Salvador, Eritrea, Oman, Saudi Arabia, Swaziland and Uzbekistan all receive better *Doing Business* rankings for "Employing Workers" than do most countries of Western Europe.**

16.Georgia is furthermore praised by *Doing Business 2007* as the world's "top performer" because of its "most far-reaching reform of labor regulation". *Doing Business* neglects to mention that Georgia refused to consult the social partners on this reform and rejected advice from the ILO, part of which concerned problems with the reform measures' compatibility with ILO Conventions 87 and 98, two of the CLS conventions.

17.According to the authors of *Doing Business*, countries need to get rid of worker protection rules so as to make their economies more investment-friendly and enhance employment creation (the subtitle of *Doing Business 2006* was "Creating Jobs"). No serious economic evidence is cited to justify the assertion that countries that receive good scores in terms of their "Employing Workers" ranking deliver higher income, increased productivity and improved employment creation. In fact, a perusal of the *Doing Business* rankings demonstrates the implausibility of the claimed identification of a link between deregulated labour markets as measured by *Doing Business* and improved economic performance.

18.**Because of their deregulated labour markets, Afghanistan, Armenia, Georgia, Haiti, Malawi, Mongolia, Papua-New Guinea, Solomon Islands and Yemen all outrank such high productivity and low unemployment countries and regions as Austria, Finland, Ireland, Korea, Netherlands, Norway, Sweden and Taiwan in their 2007 *Doing Business* "Employing Workers" scores.** Few analysts other than the *Doing Business* experts would assert that the first group of countries has found the recipe for high-quality job creation that the latter group should emulate.

Use of "Doing Business" by World Bank to eliminate workers' protection

19.**The *Doing Business* team's claimed expertise on labour issues could be considered comical if their dogmatic belief that labour regulations are nothing but a hindrance had not permeated into the World Bank's overall labour market strategies and become the main template for country-level labour market reform proposals of both the Bank and the IMF.** Concerning overall strategy, the World Bank's Human Development Network, in consultation with the Poverty Reduction and Economic Management Network, recently adopted a *Multi-Sector Approach to Foster Job Creation, Poverty Reduction and Growth* called "MILES" (where the "I" stands for Investment Climate), which states that it "will make use of *Doing Business* … to develop policy instruments to create a more employment-friendly climate for business". The MILES programme also announces that the Bank will pay increased attention to Social Protection (under the "S"), but it is unclear whether this means pressuring countries to partially privatise public pension systems for the benefit of the financial services industry, as the Bank has done in the past, or helping governments provide social protection to workers currently not covered.

20.Global Unions examined the most recent Country Assistance Strategies and Country Partnership Strategies adopted by the World Bank and found that **among the CAS/CPS posted between October 2006 and June 2007, almost half (seven out of fifteen) included recommendations that the country undertake labour market deregulation on the basis of its *Doing Business* scores.** For example, the CPS for Macedonia (March 2007) recommends "increasing labour market flexibility" in order to "improve the business climate" and be "consistent with the MILES framework". Strangely, the same document cites the results of a business environment survey showing that labour regulations were only the fifteenth obstacle mentioned by owners of firms, well below concerns such as cost of financing, contract violations, corruption, functioning of the judiciary, uncertainty about regulations and crime. The CPS for Macedonia does not address most of these concerns but does emphasise the need for more flexible labour markets, even though a new labour law was enacted in 2005.

21.Mozambique is another country that recently introduced labour law reform, in 2006, but the Bank's CPS (April 2007) insists that the country must deregulate further so to improve its *Doing Business* ranking. The CPS includes a Labor Market Reform project for this purpose. An earlier *Mozambique Country Economic Memorandum* published by the Bank (September 2005) stated that "the causation between labor market flexibility and employment growth is not always clear", "evidence is lacking as to whether restrictive labor regulation is a binding constraint in Mozambique", and there is "lack of evidence about potential losers from the [reform] process". Nevertheless, the CPS states that Mozambique's 2006 reform "falls short of the changes necessary" because it does not sufficiently reduce Mozambique's labour market rigidity ranking as calculated by *Doing Business*. The CPS for Mauritius (October 2006) announces that the Bank will provide a Development Policy Loan for "reforming the labor market", one facet of which will be "overhauling the current tripartite wage-setting machinery". The overall aim of the reform, according to the CPS, "is to secure a position for Mauritius in the top ten most investment- and business-friendly locations in the world (according to the *Doing Business* survey)".

IMF's use of "Doing Business" for labour market deregulation

22.**At the IMF, Global Unions found Article IV Consultation reports or loan review documents for twenty-one countries from October 2006 to June 2007 that included recommendations for labour market deregulation based on the country's *Doing Business* scores.** Among these are the Article IV report for Greece (January 2007), which the IMF advises should engage in "relaxation of strong employment protection legislation and decentralization of the bargaining system" and a PRGF loan review report for Kyrgyz Republic (March and June 2007), which notes that "measures to improve labor market flexibility" were made into a structural benchmark for the IMF loan. The Article IV report for Lesotho (November 2006) states that action must be taken to reduce the cost of doing business and improve competitiveness, and specifically encourages the country "to increase downward flexibility in real wages", even though wages in Lesotho's important garment manufacturing sector are less than one-third the level of those in neighbouring South Africa and one-half of those in Swaziland.

23.Another Article IV report, this one for Jordan (March 2007), observes that "the World Bank's latest Doing Business Survey has shown slippages in most areas", and advises Jordan to engage in "increasing labor market flexibility by … easing hiring and firing legislation". The IMF makes no mention of recent reports documenting widespread abuse of workers in Jordan, particularly among migrant workers in the export processing zones.[3] The IMF's insistence that Jordan make it easier for firms to fire workers could counteract efforts undertaken by the ILO, working jointly with the Jordanian government, to end this abuse. As in the numerous other countries where the IMF urges labour market flexibility**, no account is taken of the social and economic costs of eliminating labour market regulations**.

Access to IDA funds determined by "Doing Business" labour indicator

24.The flawed "Employing Workers" indicators of *Doing Business* are furthermore used as a determinant of countries' overall access to World Bank funds from the Bank's concessionary lending arm, the International Development Association (IDA), through the Country Policy and Institutional Assessment (CPIA). Although the Bank has not been transparent in its process for determining country scores and no public justification of scores is given, it is clear from the Bank's *CPIA Assessment Questionnaire* that Bank staff have been instructed to use the rigidity of employment indices of *Doing Business* as "Guideposts" in two categories: "Business Regulatory Environment" and "Social Protection and Labor". **By counting (twice) the *Doing Business* labour market indicators in the CPIA, the Bank is perversely rewarding countries that violate good labour and social standards while claiming to do exactly the opposite.**

25.Under the category of "Social Protection and Labor", good marks are supposed to be granted to countries that, according to the *CPIA Assessment Questionnaire*, meet the following criteria:

- "Social protection programs provide income support to poor and vulnerable groups"
- "Government has … passed legislation that conforms with core labor standards and is implementing these through its policies and programs"
- "Labor market regulations and active labor market policies promote broad access to employment …"
- "… Pension and savings programs provide affordable, adequate, sustainable and robust income security"

26.The *Doing Business* labour market indicators actually do not measure any of these qualities; if anything they measure their

[3] See Solidarity Center*, The Struggle for Worker Rights in Jordan*, Washington, December 2005, and ICFTU*, Annual Survey of Violation of Trade Union Rights 200*6, Brussels, 2006

absence. By instructing its staff to use the *Doing Business* labour market indicators to measure whether countries are practising good social protection and labour policies, the Bank is asserting that, for example, Haiti has better social protection programmes than the Netherlands, and Saudi Arabia has better compliance with CLS than Sweden – since *Doing Business* grants Haiti and Saudi Arabia far better "Employing Workers" rankings than the two European countries. Obviously, if the World Bank wants to be serious about persuading countries to practice good social and labour policies, it must remove *Doing Business* as the yardstick to measure these policies.

A positive World Bank role in promoting decent work

27.Global Unions agree that both the World Bank and IMF should encourage member countries to adopt and implement CLS and adequate social protection, as the Bank claims it does in the CPIA. In fact, both of these elements along with the creation of productive employment with adequate income and the promotion of social dialogue comprise the Decent Work Agenda of the ILO, which is aimed at the sustainable reduction of poverty and income inequality. **The Bank should work jointly with the ILO to establish criteria that would provide positive incentives for countries to implement decent work. These criteria should replace the flawed labour market indicators of *Doing Business,* which are based on a defective methodology and are misused to drive the removal of workers' protection through IFI country reports and the Bank's labour markets strategy. The theme of labour regulation should be removed from the mandate of *Doing Business.***[4]

28.Global Unions encourage donor countries and the World Bank, during the current negotiations for the 15th replenishment of funding of the IDA, to include the Decent Work Agenda among their priorities. As an alternative to the retrograde *Doing Business* labour market indicators, decent work incentives should be incorporated in a revised CPIA or an alternative mechanism used to determine the level of access to IDA funds. Likewise, the donor countries and World Bank should ensure that earlier IDA replenishment recommendations that have only been sporadically complied with, notably the inclusion in Country Assistance Strategies of assessments of compliance with CLS, be fully applied in practice.

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[4] An updated report on the IFIs' use of *Doing Business* to deregulate developing countries' labour markets and an analysis of the methodology used to calculate the *Doing Business 2008* labour indicators will be issued by the ITUC/Global Unions in September 2007.

A new mandate for the IMF?

29.Ten years after the 1997 Asian financial crisis, numerous governments, civil society organisations and analysts continue to question the role played by the IMF before, during and after the crisis. These questions concern both the controversial policies promoted by the IMF at the time – such as full and rapid capital account liberalisation – and the austerity and structural adjustment policies the IMF imposed as conditions for emergency loans to the crisis countries. **It is evident that one of the lessons that several Asian countries have drawn from the crisis of a decade ago is to avoid borrowing from the IMF at all costs. Many countries in Latin America have drawn similar conclusions after witnessing the dramatic economic and financial collapse in 2001-2002 of Argentina, the IFIs' star pupil of the 1990s.**

30.It is high time for the IMF to draw its own lessons from the policies it has applied in Asia, Latin America and other regions. The reluctance of countries to depend on the Fund's financial support not only undermines the IMF's basic source of income (interest payments on loans), but has potentially destabilising effects on the world economy. Rather than take the risk of having to borrow from the IMF and subject themselves to unacceptable loan conditions, several countries have striven to accumulate huge foreign exchange reserves as a protection against sudden capital outflows. This practice is one of the root causes of the global economic imbalances that the Fund has shown itself incapable of seriously addressing.

31.**Exactly ten years after the Asian crisis, it seems that the IMF may repeat the same types of errors with regards to the dramatic tightening of global credit markets that began in August 2007 and is expected to negatively affect economic growth throughout the world.** Not only did the IMF fail to foresee the crisis – the Fund even revised its economic growth forecasts upwards two weeks before the crisis broke out –, but rather than supporting a more active regulatory response to financial market instability as trade unions and some governments have urged, the IMF has rejected those calls and instead has taken a financial-markets-know-best stance. In a speech delivered on 31 July, the IMF's second in command declared: "… policy-makers should be careful to work with, rather than against the grain of markets. Policies should not stifle the process of financial innovation, given the very constructive role recent innovations have played in this unprecedented global economic expansion."

32.The IMF is ideally positioned to analyse the consequences on capital markets and the real economy of the emergence of hedge funds and private equity and to come up with adequate policy responses. These funds, which are huge pools of lightly regulated capital employing highly leveraged and tax-subsidised investment strategies, appear to have contributed to the rapid spread of problems in the US sub-prime mortgage market through capital markets around the world. The global credit squeeze shows the impact of leverage in financial markets and demands international responses to address issues of transparency, regulation and taxation of hedge funds and private equity. The IMF will not be able to assume this task, nor regain relevance in global policy-making, if it sees its role principally as a defender of the private financial sector. No matter how creative and innovative it considers private financial institutions to be, it hardly seems appropriate for the IMF, which is a public institution, to assume a function of cheerleader for private institutions characterised by opacity and destabilising or predatory practices. **The arrival of a new managing director at the IMF after the 2007 annual meetings could be the occasion for the IMF to adopt a new policy paradigm and show that it is capable of fulfilling its mandate of countering global financial and economic instability and assisting countries in need of financial support.**

Some small steps but no overall IMF policy change

33.After the Asian financial crisis, the IMF abandoned efforts to make fully liberalised capital markets a condition of Fund membership and by 2004 it recognised that capital controls could, in some cases, have a stabilising effect on national economies. The IMF is also showing signs of loosening its rigid stance on government spending and deficit ceilings and inflation rates. For example, IMF staff have told trade union delegations that the Fund no longer demands that poor African countries maintain inflation rates below 5 per cent, deeming that such an arbitrary limit could oblige countries to adopt inappropriate growth-slowing monetary tightening. However the loosening of the IMF's macroeconomic constraints has not been transparent or explicit, and many countries may continue to observe rigid targets in the belief that future IMF loans will depend on applying policies such as keeping inflation at very low levels even if doing so frustrates poverty reduction plans.

34.Another example of unclear changes in IMF policy is on the issue of public sector wage-bill ceilings. In a well-known case concerning a 2004-2007 Poverty Reduction and Growth Facility (PRGF) loan to Zambia, the IMF froze loan payments because the government had exceeded the Fund's wage-bill ceiling by hiring additional teachers to meet the MDG of universal primary education, even though the new teachers' pay was financed through donor assistance. The IMF subsequently relaxed the condition on Zambia and allowed additional teachers to be hired, and a recent report states that "the share of PRGF-supported programs with wage bill ceilings declin[ed] by 25 percent over the last 4 years. … Moreover, only 3 programs … out of a total number of 29 PRGFs currently include them as quantitative performance criteria."[5] However the only official indication that the IMF has adopted a more enlightened policy stance allowing countries to make social expenditures that exceed earlier wage-bill ceilings is the following instruction given to Fund staff: "Going forward, such ceilings should be used selectively only when warranted by macroeconomic considerations, justified in program documents, sufficiently flexible to accommodate spending of scaled-up aid, and reassessed at the time of program reviews."[6]

35.It appears that **IMF staff have been given the discretion not to institute wage-bill ceilings as frequently as they did in the past, but nothing prevents them from doing so if they judge that ceilings are "warranted by macroeconomic conditions", which was the standard pretext used by the Fund for imposing them** in Zambia and in every other country where they were ever applied. Similar pronouncements by the IMF that it will be more flexible regarding privatisation conditionality have not been followed through with a clear recognition that many essential services are more effectively operated under public ownership. Likewise, **years of promises that the IMF will focus on core macroeconomic and financial issues rather than on areas in which the Fund has no expertise ring hollow when one sees the multiplication of recommendations to deregulate labour markets in the most recent IMF country reports.**

Making the IMF relevant to decent work and the MDGs

36.As the ITUC/Global Unions stated in a recent report submitted to the IMF, the steps towards reform undertaken by the IMF "are certainly welcome, but they are far from sufficient and they fail to address the fundamental reason that an increasing number of states are turning away from the Fund – its restrictive macroeconomic and structural reform policy prescriptions, which do not contribute to employment creation … For the IMF to remain relevant … it must re-examine its policies in light of the negative impact of structural reform loan conditions and policy advice on working people and the

[5] IMF, *IMF comments on "Does the IMF Constrain Health Spending in Poor Countries"*, Washington, June 2007.
[6] IMF, *Fiscal Policy Response to Scaled-Up Aid*, Washington, June 2007.

poor. It must place decent work and the achievement of the Millennium Development Goals at the centre of its policy agenda."[7]

37.In order to restore its relevance to countries seeking to improve standards of living and protect the most vulnerable members of society, the IMF should adopt the following policy changes:

- **The Fund's policy advice, lending conditions, and financial instruments must not encourage or require countries to adopt policies that cause job loss or limit employment creation, undermine the quality of employment, cut back labour market institutions or reduce social, health or educational expenditures.**
- **The IMF, along with the World Bank, should engage fully in the Policy Coherence Initiative** as recommended in the report of the World Commission on the Social Dimension of Globalisation, which emphasised that **creation of full and productive employment and decent work are key instruments for poverty eradication and equitable development.**
- **Consultations with trade unions and other civil society organisations should not be limited to Article IV Consultation reports but should be expanded to discussion of general country assistance and lending operations.** Conditionality must be the subject of public consultation before binding loan agreements are determined.
- **Conditionality should primarily serve a fiduciary role and not undermine national autonomy and independence in policy-making.** IMF conditions must be further reduced in scope and in number and should only seek to ensure that the borrowing government uses the loan according to its stated intention and does not violate human rights, including the internationally recognised core labour standards.

38.**Renewed relevance for the IMF on the global scale also requires adopting multilateral instruments that will allow it to fulfil its mandate of counteracting threats of international financial and economic instability and assisting countries facing financial difficulty.** Although some IMF reports have recognised the potentially destabilising impact of hedge funds and highly leveraged buy-outs by private-equity funds, no action has been taken by the IMF to develop an international regulatory framework for these activities. On the contrary, high-level Fund officials have rejected the idea of developing new regulations. Nor has action been

[7] ITUC/Global Unions, *Initiating Reform of IMF Policy Prescriptions: Proposals from the Global Trade Union Movement*, Washington, December 2006

taken to address the implications of the rapidly growing international role of sovereign wealth funds. Additionally, extensive multi-year discussions at the IMF have yet to produce a sovereign debt restructuring mechanism, a viable emergency credit facility for countries in financial difficulty, or measures to protect economies against destabilising speculative capital movements. Some IMF officials have recognised that the downside risks of financial globalisation have increased in recent months, something that the recent global credit squeeze seems to confirm. It is urgent to move forward by putting in place the necessary instruments to mitigate these risks and protect national economies against them.

39.**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 are non transparent, exploit unwarranted tax subsidies and contribute to financial market instability**; the process should 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 destabilising speculative capital movements**, including a Tobin tax and support for capital controls put in place by national governments

Conclusion

40.**The international trade union movement reiterates its demand that the IFIs take measures to bring their policies in line with the objectives of the Millennium Development Goals and the Decent Work Agenda. An important step in this direction will be to extend the IFIs' debt relief programme**, from which only thirty countries have benefited so far. A greater number of low-income countries must be granted debt cancellation without economic policy conditionality, such that they can devote more resources to achieving the MDGs rather than servicing unsustainable debts. **It also requires that the World Bank finally do away with its controversial *Doing Business* approach to labour market regulation, and that both IFIs cease to call for the removal of workers' protection.**

41.Global Unions call on the IFIs to support countries that promote decent work. For the World Bank, this means eliminating the *Doing Business* guidepost in its CPIA exercise and instead creating incentives for borrowing countries to abide by the core labour standards and increase decent work. For the IMF, this means a shift in policies from a paradigm of restrictive macroeconomic and structural conditions to a model that allows countries the flexibility to choose policies to increase job creation and spending on essential services. **If the IFIs are to have a future role in the global economy, both institutions will need to act as a force for equitable globalisation: the World Bank, by supporting decent work in its projects and policies and the IMF, by working to counteract the risks for national economies caused by financial globalisation.** Global Unions urge the IFIs to make these important changes and to proceed in an open and transparent manner, including through engagement with trade unions, civil society organisations and the public of the countries they serve.

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