Achieving effective responses to food and financial crises and increasing developing country representation

Statement by Global Unions[1] to the 2008 Annual Meetings of the World Bank and International Monetary Fund Washington, 11-13 October 2008

Introduction

1. As the World Bank and International Monetary Fund (IMF) are called upon to contribute to confronting global issues such as climate change, ongoing turmoil in financial markets, food and fuel price surges leading to declining living standards and resurgent inflation, and impasse in international trade negotiations, it is essential that they respond more fully to the needs and priorities of all of their member countries, particularly those in the developing world. The lender-borrower relationship between the international financial institutions (IFIs) and their client countries is not an appropriate structure through which to approach challenges that, while affecting developed and developing countries alike, often have stronger adverse effects on the latter.

2. This is certainly true of the food price crisis, the brunt of which falls disproportionately on poor women and men in developing countries. The IFIs have responded swiftly to assist some countries most affected by the crisis, but have not gone far enough to ensure that the strategies they design do not interfere with countries' right to implement measures to protect their populations. Countries confronting the food crisis should have the backing of the IFIs as they pursue policies to increase agricultural production and stabilize prices for domestic consumers through measures such as improved public infrastructures, provision of inputs to small farmers and creation of grain buffer stocks. The World Bank and IMF should also ensure that that their policy initiatives on matters such as international trade negotiations, commodity futures speculation and bio-fuel production contribute to food security and accessibility in developing countries.

3. Not only must the IFIs support developing countries' policy strategies to combat the food and financial crises, they must allow for greater country autonomy on other economic policy issues. Although the IFIs have adopted policies to reduce economic policy conditionality in recent years, excessive conditions still burden the IFIs' client countries. Apart from fiduciary controls, obligations should be limited to requirements on internationally agreed standards, including core labour standards. The World Bank must ensure that its projects comply with these standards, in conformity with commitments already made, and cease pressuring developing countries to dismantle workers' labour and social protection using the *Doing Business* report, whose

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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 155 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, ICEM, IFJ, IMF, ITF, ITGLWF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

methodology and claims have been debunked by the Bank's own internal watchdog group.

4. The *Declaration on Social Justice for a Fair Globalization* adopted by the International Labour Conference in June 2008 called for the International Labour Organization (ILO) to work jointly with other organizations, including the IFIs, in the promotion of decent work. In pursuit of this objective, the international trade union movement urges the IFIs to strive for greater policy coherence between their programmes and other multilateral initiatives, such as the United Nations Framework Convention on Climate Change and the ILO's Decent Work Agenda. If the objectives of the UN High-level Event on the Millennium Development Goals (25 September 2008, New York) and the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (29 November - 2 December 2008, Doha) are to be met and development prospects to be significantly improved, the IFIs must change their policies to play a far more constructive role than over the past decades.

5. The World Bank's recently revised assessment of the number of people living in extreme poverty – estimated, before the food price surge drove even more into poverty, at one in four developing-country inhabitants versus one in six under previous calculations – shows the urgency of changing the policy focus of the IFIs. Global Unions call on the World Bank, in particular, to use the 2008 Annual Meetings to agree to a process of governance reform, leading to, at minimum, parity of voting power between developing and developed countries. As a development institute, the World Bank has a unique responsibility to ensure that the positions of developing countries are given more weight in important global debates.

Need for comprehensive policy change in response to food price crisis

6. The member organizations of the Global Unions group have called for action to counter the impact of higher food and fuel prices in numerous forums over the past several months. Tens of millions of our members are low-income workers in developing countries and they are particularly affected by the price surges, which, especially in the case of food, are having a major distributional impact. The recent attention of the IMF and World Bank to the food and fuel price crisis and the situation of agriculture in developing countries is welcome. However, whereas the IMF declared in June that the balance-of-payments position of 72 developing countries was severely weakened by the combined impact of food and fuel price increases, we note that by September emergency assistance for budget or balance-of-payments support had been granted to only fifteen countries by the Bank and twelve by the Fund. The amount of assistance was on a relatively modest scale: an average of $9 million per country from the Bank and concessionary loan augmentations from the Fund averaging $19 million per country but spread out for up to three years.

7. Global Unions are concerned that the IFIs' policy proposals for increasing food production and to reduce prices do not adequately address all of the root causes of the current crisis, and that those for mitigating the impact of the crisis on populations could

leave many of the needy – a disproportionate number of whom stand to be women – without assistance. Most analysts agree that the food price crisis cannot be resolved by continuing the same policies applied in recent years, but "more of the same" will be the inevitable result if institutions do not correct inappropriate policies that they promoted until very recently. One example is the shift of agriculture to bio-fuel production, which World Bank reports hold responsible for up to three-quarters of food price rises over the past six years. As recently as in 2006, the World Bank's president gave speeches on the need "to promote bio-fuels on a larger scale", and the Bank issued policy notes for the establishment of bio-fuels programmes in developing countries through subsidies and tax waivers. In neither case was the impact on food prices mentioned.

8. The World Bank's *New Deal for Global Food Policy: A Ten-Point Plan* calls for action in the US and Europe, where the Bank does not have lending programmes, to ease state support for bio-fuels but says nothing about the Bank's position regarding support for bio-fuels in its client countries, where it can have a strong influence on policy decisions. **The World Bank should clarify its current position on support for bio-fuel production in developing countries and on the precautions it is taking to ensure that any support does not contribute further to the food crisis.**

9. In the very recent past, the Bank and the Fund obliged many developing countries, particularly in Africa, to cut back on state support for agriculture, through loan conditions that required dismantling state corporations for the supply of inputs and for marketing, reducing subsidies for seeds and fertilizers, and eliminating grain buffer stocks. The Bank's *New Deal for Global Food Policy* proposes a substantial and much needed increase of investment in rural infrastructure in developing countries, along with "well-designed subsidies aimed at poor and small-scale farmers who would not otherwise use agricultural inputs". However the Bank insists that the latter support must only be introduced for "a limited period", which seems to signal that the Bank discourages longer-term support. Many developing countries are considering the reestablishment of grain buffer stocks to protect citizens against shortages and price surges; the Bank should indicate whether it would reverse past policies and support such initiatives.

10. Another of the Bank's ten points to alleviate the food crisis is the conclusion of the Doha round of World Trade Organization negotiations involving sharp reductions in subsidies and tariffs. In its *World Development Report 2008: Agriculture for Development* (WDR 2008), the Bank states that, "full trade liberalization is estimated to increase international commodity prices on average by 5.5 percent for primary agricultural products". The Bank should explain the function of a proposal expected to increase food prices in a programme aimed at countering the food price surge, and put forward measures to mitigate the inevitable negative impacts. **In particular, the World Bank should end its opposition to developing countries' demands in WTO negotiations to protect food security and meet rural development goals, such as the "Special Safeguard Mechanism", and instead support such proposals.**

Support programmes that assist all those who require aid

11. In their analyses of the causes of the current food and fuel price crisis, the IFIs have played down the impact of speculative investments in commodities as a causal factor. Many analysts in fact believe that speculative investments in futures markets have had the effect of contributing to price fluctuations because regulatory mechanisms for overseeing these markets were removed over the past decade in the US and other countries. Considerable evidence on the role of speculative investments in inflating commodity prices came out during hearings held by the US Senate in June 2008. The IMF should take the leadership in promoting the appropriate regulation of futures markets to limit price spikes caused by speculative activity, as well as of financial markets, where lack of adequate regulation contributed to the so-called subprime crisis in the US.

12. Global Unions are also concerned that the IFIs' policy advice for protecting low-income consumers in developing countries against the impact of food and fuel prices may result in some very needy sectors of the population being excluded from assistance. Both the IMF and World Bank have discouraged the use of subsidies for basic foods stuffs – such as maize, rice, wheat flour or cooking oil – because they are not sufficiently "targeted", and have favoured instead temporary cash transfers to the poor. The practical problem with the latter is that they require an administrative system that may be beyond the capacities of the government and usually pose higher degrees of difficulty in poorer countries. Many needy individuals are likely not to receive any benefit because of administrative weaknesses, and others who have suffered substantial loss of buying power would be excluded if their level of income is above the very low eligibility ceiling usually established for these cash transfer schemes.

13. Unfortunately, when the World Bank convened civil society groups in recent months to discuss policy options for countering the food price crisis, it chose not to invite trade unions, even though Global Unions represent millions of workers engaged in food production and many more low-income workers in developing countries who are suffering the brunt of the crisis. The IMF did invite unions to briefings on the same topic and the ITUC had an opportunity to express concerns with Fund officials. The World Bank also neglected to invite unions to take part in preparatory consultations for its WDR 2008, despite the fact that many agricultural workers' unions in developing countries are affiliated to the International Union of Food and Agriculture Workers (IUF), one of the Global Union Federations. While the WDR notes that landless labourers constitute a growing share of the rural workforce and that their wages are declining in many countries, it inexplicably expresses hostility to minimum wages and ignores the need to promote the right of these workers to organize, a right often denied to agricultural workers. Such deficiencies in the WDR 2008 could have been avoided if the Bank had consulted the organizations that represent these workers.

14. A final area of concern related to the impact of the food and fuel price crisis pertains to government policy in response to price hikes, notably when workers attempt to obtain wage increases to compensate for the decline of their buying power. The IMF has counselled governments to "accommodate first-round effects" of higher food and fuel

prices on inflation, but cautions against "second-round effects" that could result in a wage-price spiral. Trade unions obviously support efforts to limit price increases, but do not agree that wage earners should be obliged to suffer a drop in real income as a result of restrictive macroeconomic or wage-setting policies. Restrictive economic policies could add to recessionary pressures at a moment when the global economy is already very weak, as well as causing declining living standards for many people.

15. **The IFIs should support governments in efforts to maintain the buying power of wage earners and others on fixed incomes whose real incomes have deteriorated as a result of the food and fuel price crisis. They must also provide financial support for emergency measures that ensure assistance to low-income people suffering from the high cost of basic foodstuffs, with attention that such assistance reaches the millions of women living in poverty and in need. However, they should refrain from pressuring countries to end programmes that are "insufficiently targeted" if these are the only ones capable of reaching all those who require aid. The IFIs should encourage renewed government support for the production of foodstuffs in developing countries for domestic consumption at accessible prices, including though improved public infrastructure, provision of inputs to small-scale farmers and creation of grain buffer stocks. Finally, the IFIs should ensure that their policy initiatives on issues such as commodity futures speculation, bio-fuel production and international trade negotiations are supportive of and consistent with food security concerns and the objective of making food available to all at reasonable price.**

Bank's response to climate change must affirm primacy of UN Convention

16. Global Unions welcome the World Bank's recent focus on climate change and agree that the issue merits serious attention. Global Unions are apprehensive, however, that the World Bank's new Climate Investment Funds (CIFs) may not be the appropriate mechanism for the Bank's climate change work. Unlike the United Nations Framework Convention on Climate Change (UNFCCC), which was developed with input from civil society organizations and developing countries, the CIFs were essentially donor-driven and lack transparency and accountability measures. Global Unions share the concerns of many civil society groups and developing-country governments that the CIFs could undermine the multilateral negotiations around the UNFCCC and may actually divert funding by establishing a parallel mechanism.

17. Given the global scope of the climate change challenge, policy coherence between the World Bank and the UNFCCC process is essential. Global Unions are pleased to see that the World Bank's draft *Strategic Framework on Climate Change* (SFCC) commits to support for the "principles, policies, and directions of the UNFCCC process", and that it recognizes the UNFCC as "the primary international institution addressing global climate change". **Global Unions urge the World Bank to confirm its adherence to the UNFCCC principles as binding, internationally endorsed commitments.**

18. Greater coherence is also necessary within the World Bank itself. Action on climate change cannot be limited to the CIFs and isolated from the Bank's regular policy and

project operations. Noting that the World Bank's own Independent Evaluation Group (IEG) has acknowledged inadequate evaluation and monitoring of environmental impacts of Bank operations, Global Unions call for the Bank to pay greater attention to the environmental impacts of its projects, particularly those in its large portfolio of fossil fuel projects. Global Unions endorse the IEG's recent recommendation to fully include environmental issues in World Bank country and regional assistance strategies. This discussion should not be limited to the environmental impacts of climate change, but should also consider social impacts.

19. Global Unions agree with the affirmation of the Bank's new SFCC that World Bank activity on climate change must consider the needs of vulnerable social and gender groups. The Bank must also consider the effects of climate change mitigation and adaptation strategies on workers in extractive and polluting industries who may be victims of job shedding, and the necessity to create more "green jobs" for men and women. **Creating "green jobs" – which preserve, protect, or restore environmental quality while providing decent work, and could potentially generate employment for tens of millions – should be a priority of the World Bank leadership as they discuss the implications of the *Strategic Framework on Climate Change* at this year's annual meetings.**

Governance reform at the World Bank is essential

20. As the World Bank turns its attention to global issues such as climate change and the food crisis, it is important that any action it pursues on these and other topics be undertaken with the full participation and support of both developing and developed countries. Unfortunately, developing countries' voice and vote at the Bank are currently limited by a governance structure skewed in favour of wealthy donor countries**. Global Unions strongly support a fairer and more democratic governance structure, and call for a deep and systematic reform at the World Bank. The end result of governance reform should, at the very least, be parity of voting power between developing/transition countries and developed countries.** Dilution of the voting power of any developing countries should not be accepted.

21. Although such changes may be phased in over a period of time, the sequence of reforms and a timeline for implementing them should be agreed as soon as possible. Global Unions discourage the World Bank from pursuing an incomplete path towards reform, such as that which took place at the IMF, and instead recommend that the Bank develop its own criteria for reform based on the fact that the World Bank is first and foremost a development institution. Recognizing the need for some rapid improvements, however, **Global Unions support the proposal to immediately create an additional African executive director's post in the World Bank's board.** It is indefensible that only two executive directors currently share representation for the entire Sub-Saharan Africa region, given the breadth and impact of the Bank's work there. A third African executive director, who would be in addition to the current developing and transition country EDs, would provide some immediate improvement whilst the long-term governance reform is in progress.

Need for concrete steps to reduce economic policy conditionality

22. Although both the IMF and World Bank have adopted policies to reduce or "streamline" structural or economic policy conditions attached to their loans, progress has been exceedingly slow at both institutions. In January 2008, the Fund's Independent Evaluation Office (IEO) noted that it had found no evidence of a reduction in the number of conditions following a streamlining policy adopted in 2000. A more recent IMF report establishes that the average number of conditions per PRGF (concessionary) loan even increased, from 13.5 in 2002-2004 to 15 in 2005-2007. The number of "structural benchmarks", which the IEO recommended discontinuing altogether, increased in both PRGF and non-concessionary loans from 8 to 10 per loan between the same three-year time periods.

23. There has been a similar lack of progress at the World Bank, despite its adoption in 2005 of "Good Practice Principles" for the application of conditions. Trade unions are particularly concerned with labour market policy conditions that require borrowing countries to relax protection for workers. These include the labour market flexibility indicators of *Doing Business* that are used as a "guidepost" in the Bank's Country Policy and Institutional Assessment (CPIA), which determines overall access to concessionary funds from the Bank's International Development Association (IDA).

24. **Global Unions consider that both the World Bank and IMF should put an end to economic policy conditions and, instead, limit obligations to fiduciary controls and to those concerning respect for internationally agreed standards, including core labour standards. The World Bank should not use the CPIA to reward countries that do away with protections for vulnerable workers on the pretext that this helps "improve the business climate". Finally, the IFIs' debt cancellation initiative should be extended beyond the thirty countries that have benefited so far, but without the economic policy conditionality that has been attached to the programme.**

IFIs must stop using discredited Doing Business labour indicators

25. Ever since the first edition of *Doing Business* came out in October 2003, trade unions have been demanding that the World Bank stop using the report to pressure countries to eliminate workers' protection regulations – such as minimum wages, advance notice of dismissals or social safety nets – by rewarding countries that have the lowest level of mandated workers' and social protection. Instead of removing the issue of labour regulation from the mandate of *Doing Business* as the ITUC proposed, the Bank elevated *Doing Business* to its highest circulation publication and incorporated its labour indicators into the CPIA, the Bank's labour markets strategy and dozens of country-level policy reports and recommendations. The IMF similarly used *Doing Business* labour market indicators in many country-level policy reports.

26. Unions have long pointed out that *Doing Business* not only rewarded notorious violators of workers' rights because of its biased methodology, but that its labour

indicators had no relation with positive outcomes such as employment, economic growth and investment. A recent report of the Banks' Independent Evaluation Group (IEG), published in June, came to the same conclusion. The IEG report confirms the inherent bias of *Doing Business* because it "measures costs but not benefits of regulation or other dimensions of labor market flexibility" and the fact that "no significant association emerged between … [the *DB* indicator on] employing workers and employment". The IEG also blames *DB* for making "overstated claims of the indicators' explanatory power".

27. Although the Bank's own watchdog group, the IEG, discredited the *Doing Busines*s methodology on labour and social protection, numerous country-level Bank reports continue to use the report's flawed indicators to recommend labour market deregulation or reduction of contributions to social protection. Country Assistance or Partnership Strategies (CAS or CPS) since late 2007 that use *Doing Business* for this purpose include those for Turkey, Mali, South Africa, Serbia, Ukraine and Panama. On the other hand, the Bank's CAS for Belarus lauds the fact that in "the 2008 Doing Business Report … Belarus ranks quite well regarding … employing workers". The International Labour Organization (ILO) condemned Belarus' curtailing of workers' rights as a violation of the core labour standards, leading to the European Union's withdrawal of trade preferences under the Generalized System of Preferences in 2007. By endorsing unacceptable labour standards that have resulted in reduced access for Belarus exports to the world's largest market, one wonders how much of a service *Doing Business* and the World Bank are actually rendering to those who wish to invest in the country.

28. Another example of *Doing Business* adopting highly questionable stances as regards countries' interests is the case of Brazil, where *Doing Business* supports a reduction of the minimum wage because it exceeds the threshold (25 per cent of the average value added per worker) that the report deems acceptable. Yet the Bank's 2008 CPS for Brazil highlights "increases in the minimum wage" as one of the causes of a significant decline in poverty and of the fact that Brazil's income inequality, which was among the highest in the world, "is finally eroding". At the same time that the Bank's CPS recognizes that Brazil has succeeded in making strides towards reduction of poverty, which the Bank formerly described as its "overarching goal", the institution's highest-circulation publication is promoting measures that would increase poverty in the country.

29. Recent IMF country-level reports, such as Article IV Consultation and loan review reports, also continue to refer to the discredited labour indicators of *Doing Business* as justification for labour market deregulation recommendations or loan conditions. The ITUC found six such examples among IMF country reports released over a four-month period in mid-2008: Mauritius, Cape Verde, Niger, Mauritania, Greece and Lithuania. In the case of Niger, the IMF cites the "relatively high" (i.e. poor) *Doing Business* ranking for "Employing Workers", and its Road Map for Structural Conditionality under the PRGF-Supported Programme includes a requirement that Niger "implement an action plan, with World Bank assistance, to reduce the cost of business … [by] increasing labor market flexibility".

30. **Now that the Bank's own evaluation unit has determined that the claimed links of causality between the *Doing Business* labour-related indicators and employment creation are unfounded,** something that the ITUC and ILO pointed out years ago, **both IFIs should cease using these indicators to design or justify labour market deregulation measures for member countries. The "Employing Workers" and "Paying Taxes" indicators, which are used to pressure countries to dismantle workers' and social protection, should be removed from the mandate of the *Doing Business* publication. They should be taken out of the World Bank's CPIA index for determining countries' access to concessionary assistance and its labour market strategies. Instead, the Bank should support the ILO's Decent Work Agenda.** The ITUC has furthermore invited to Bank to initiate an investigation to determine how such obviously flawed indicators came to be used as key policy instruments within the Bank despite repeated warnings it received over the past five years about the biased methodology and the lack of empirical evidence to back up *Doing Business*'s claims.

World Bank and IFC must ensure implementation of CLS commitments

31. Global Unions supported the actions that the World Bank took over the past two years to ensure that the core labour standards (CLS)[2] are adequately recognized and protected in its operations. Beginning with the IFC's adoption of CLS requirements in its Performance Standards on Social and Environmental Sustainability in 2006, and the World Bank's subsequent addition of CLS clauses to its Standard Bidding Document for Procurement of Works (SBDW) in 2007, the World Bank Group has made important commitments to protect workers' rights and has encouraged other multilateral development banks to follow its lead. Global Unions are concerned, however, that these recent promises will soon ring hollow if the World Bank and IFC do not increase monitoring and enforcement of CLS compliance for their projects.

32. The CLS requirements in the SBDW are little known outside the Bank's procurement department, and there has been no outreach or training on a country level to ensure that these requirements are understood and enforced in active projects. While Global Unions appreciate the ongoing headquarters-level dialogue with the World Bank's procurement department on CLS, the Bank must do more to ensure that field staff are similarly made aware of the measures that must be taken to comply with labour standards at a project level. **Global Unions recommend that the World Bank provide training on the core labour standards and establish a mechanism for monitoring and enforcing violations of the labour requirements, and do so in cooperation with the international trade union movement. Global Unions renew their request for the Bank to establish pilot efforts to monitor and enforce CLS in World Bank-sponsored infrastructure projects.**

[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 (Conventions 87 and 98); the elimination of discrimination in respect of employment and occupation (Conventions 100 and 111); the elimination of all forms of forced or compulsory labour (Conventions 29 and 105); and the effective abolition of child labour, including its worst forms (Conventions 138 and 182).

33. Although it emerged as a leader in ensuring that its projects comply with CLS and played an important role in encouraging other IFIs to adopt standards similar to its own, the IFC may be slipping in its efforts to ensure that client companies conform to the labour requirements of its Performance Standards. The IFC has been slow to respond to some recent complaints from trade unions about possible CLS violations in IFC projects. Global Unions are further concerned that the IFC's due diligence on the labour rights compliance of its prospective clients may be insufficient. This is notably the case in the financial sector, where the IFC has exempted borrowing firms from the obligation to apply the specific labour rights requirements of its Performance Standards, allowing financial institutions to violate workers' basic rights in spite of the IFC's commitment to uphold the CLS.

34. The IFC must also improve its due diligence process when screening prospective clients in countries with a history of workers' rights abuses and in enterprises with a poor history of respecting those rights. For example, the social review summary for a recently proposed loan to the Colombian airline Avianca only briefly mentions that, "some complaints with regard to labor aspects have been raised by external organizations", but leaves it to the company to follow up on the complaints even though trade unions raised serious concerns about Avianca's history of anti-union activities and the high level of violence against trade unionists in Colombia. Global Unions regret that cases such as this one are undermining the IFC's efforts to ensure that its projects are consistent with the CLS. **Global Unions urge the IFC to improve its screening process for client companies, and reiterates its offer to assist the IFC through participation in an early consultation process. Consultation with unions on the labour aspects of upcoming IFC investments should be a mandatory part of the IFC's "due diligence" process. Global Unions further encourage the IFC to respond quickly to complaints of labour rights violations in its projects, so that the integrity of the Performance Standards is not compromised.**

Coordinated policy response to financial crisis is lacking

35. There is growing consensus that lack of adequate financial sector regulation was a root cause of the 2007 financial crisis, which is the biggest shock felt by the financial system since the 1930s and has caused a global economic slowdown. Unfortunately, the policy responses, both to counter the impact of the financial crisis on the real economy and to avoid its repetition, have been far from adequate. At the IFIs' spring meetings of April 2008, Global Unions called on the IMF to lead a comprehensive response to the financial crisis that would include the development of new international regulatory frameworks, and were pleased to see the developing-country group at the IFIs (G-24) issue a similar appeal for "active policy coordination" and support the need "to strengthen the regulatory and supervisory framework" of the financial sector.

36. However the final communiqué of the IMF's ministerial committee meeting (IMFC) in April limited itself to calling for "coherent action" by countries, reflecting G7 finance ministers' stance, rather than endorsing the calls for a coordinated international policy response that IMF management had made prior to the meeting. The communiqué did not

endorse Fund managements' appeal for public interventions going beyond monetary and fiscal stimulus to avert financial sector collapse, nor was progress made on establishing a new crisis prevention credit line, the previous facility having expired in 2003. Despite the havoc that massive movements of speculative capital are having on some economies, no measure was announced for assisting countries in establishing controls to limit damaging movements of capital.

37. The absence of a coordinated response has meant that the global economic situation continues to deteriorate: important financial institutions in the US, where the crisis began in mid-2007, have not yet emerged from threatened collapse; latest data show some major industrialized economies to be on the edge of recession, despite the IMF's upward adjustment of economic growth forecasts in July 2008; and several developing countries are rapidly finding themselves in serious economic difficulty. Many developing countries are finding it an arduous challenge to navigate between an upsurge in inflation, due to high costs of food and energy, and the possibility that monetary tightening may provoke recession. While the prospect of moderating prices for commodities may relieve some of the inflationary pressure, they will also erode the income of several developing countries whose growth has been dependent on commodity exports.

38. The international trade union movement believes that there is strong popular support around the world for international cooperation in pursuing comprehensive reform of private financial institutions to provide greater transparency, capital adequacy and greater systemic stability. Regulatory reform should cover both commercial and investment banks, but should also cover the "shadow banking system", such as hedge funds, private equity and sovereign wealth funds. A new regulatory and supervisory framework must ensure transparency of all direct and indirect liabilities of banks, insurance companies and other financial institutions and discourage excessive risk taking. Ensuring that these financial entities and their activities comply with the core labour standards should be one of the objectives of the process. The IMF is the only existing global institution that could take leadership in coordinating national regulatory reforms, and also in developing appropriate international regulatory frameworks.

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

- Broadening the IMF's **multilateral consultation process to address not only the repercussions of global economic imbalances** between the US and Asia, notably on exchange rates, **but also the serious impact of sharply increased food and fuel prices, especially in developing countries**
- Creation of **a new emergency credit facility for countries in financial difficulty,** unhampered by the policy preconditions that rendered the former Contingent Credit Lines, which expired in 2003, unusable
- Initiation of a process, including consultations with trade unions and other interested parties in addition to private financial institutions, to create **international frameworks for comprehensive financial regulatory reform, including commercial and investment banks as well as private equity funds, hedge funds and related financial activities** that are non transparent, exploit unwarranted tax subsidies and contribute to financial market instability

- Submitting the draft **guidelines for governing the investments and operations of sovereign wealth funds** to consultations with trade unions and other interested parties; the discussions have so far been limited to exchanges between the wealth funds themselves and the IMF
- Creation of a **fair and transparent sovereign debt restructuring mechanism** for orderly work-outs of debts owed by developing countries
- Establishment of **measures to protect national economies against destabilizing speculative capital movements**, including a Tobin tax and capital controls put in place by national governments

Conclusion

40. The international trade union movement calls on the IFIs to allow the developing countries greater weight in their decision making and, in particular, on the World Bank to initiate decisive steps towards meaningful governance reform. Both the IMF and the Bank must reduce their use of economic policy conditionality and stop dispensing damaging policy advice, including the use of the World Bank's discredited *Doing Business* labour market indicators. Instead, both IFIs should require compliance with internationally agreed standards, such as the ILO's core labour standards, as the only non-fiduciary conditions in their country programmes.

41. Global Unions encourage the IFIs to support countries that require assistance to respond to the food and financial crises. The IMF should lead a coordinated response to the financial crisis that includes the creation of a new international regulatory framework. The World Bank should clarify its position on promoting bio-fuels in developing countries and how it intends to ensure that this does not exacerbate the food price crisis. As the Bank increases its work to respond to climate change, it is important that it respect the primacy of the multilateral negotiations including the UNFCCC that have already taken place on these issues, and not create any mechanisms that conflict with or divert funds from internationally agreed instruments.

42. Global Unions urge the IMF and World Bank to seriously consider the proposals set forth in this statement, and to implement them through coordination with trade unions, civil society organizations and the public of their member countries.

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