

# GLOBAL UNIONS

INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS (ICFTU)  
GLOBAL UNION FEDERATIONS (GUFs)  
TRADE UNION ADVISORY COMMITTEE TO THE OECD (TUAC)<sup>1</sup>

## ***THE IFIs' ROLE IN IMPLEMENTING GLOBAL COMMITMENTS TO ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS***

**Statement by Global Unions to the 2005 Annual Meetings of the  
IMF and World Bank (Washington, 24-25 September 2005)**

### **Introduction: Implementation of new commitments for debt cancellation and development assistance**

1. Trade unions were co-founders in September 2004 of the Global Call to Action against Poverty (GCAP), which is undertaking a world-wide campaign to mobilize support in favour of decisive action in 2005 to achieve the Millennium Development Goals (MDGs). The specific means GCAP has put forward are debt cancellation, a major increase in the quantity and quality of aid, trade justice, and national efforts to achieve the MDGs that are sustainable and developed in a way that is democratic, transparent and accountable to citizens. The pledges made by industrialized countries to completely write off debts of several poor countries are a welcome step forward, as are commitments to increase development aid. However, the limited nature of the new debt initiative should be underlined. Full debt cancellation would apply to only 18 countries at a first stage, less than a third of the number of poor countries with unsustainable debt burdens, and uncertainties remain as to whether the beneficiary countries will see a decrease in concessionary assistance from the IFIs. The impact on poor indebted countries from recent oil price rises alone are likely to exceed the benefit of additional debt relief granted through the G8 package. Furthermore, the continued application of structural adjustment conditionality to debt relief under the Heavily Indebted Poor Countries (HIPC) programme will constitute a major obstacle for a number of countries in meeting the "completion point" requirements for full debt relief.

2. **The Washington-based international financial institutions (IFIs) have a key role to play in ensuring that commitments made at the G8 summit for full debt cancellation and increased development assistance are implemented, and also in taking the initiative of eliminating the conditionality attached to debt relief and aid that frequently undercuts original domestic efforts to eliminate poverty and attain the MDGs. All IMF and World Bank programmes and projects should be monitored to determine if they contribute to or detract from achievement of the MDGs. Global Unions also call on the IFIs to insist on the need for all rich**

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<sup>1</sup> The ICFTU represents unions in 154 countries with a total of 145 million members. The ICFTU works closely with the Global Union Federations, representing workers in different sectors, and with the TUAC. All the above organizations are on the Global Unions web site: <http://www.global-unions.org>

**countries to meet the 0.7 per cent target for development aid and to actively work for the creation of innovative taxes and mechanisms for raising funds for development, such as a Tobin tax.**

### **The need to end economic policy conditionality**

3. The implementation by the International Monetary Fund (IMF) and World Bank of the new debt relief initiative and the Bank's upcoming conditionality review provide opportunities to substantially modify policies on conditionality. As noted in a British government policy document released earlier this year (*Rethinking Conditionality*, March 2005), conditionality on issues such as privatization and trade liberalization has frequently been forced on developing countries against their best interests, has had negative social impacts, and has prevented poor countries from incorporating lessons from successful development models that diverge from the pure free-market approach.

4. Although the IFIs frequently proclaim that the "Washington Consensus" of the 1980s and 1990s is dead, classic structural adjustment conditions continue to be attached to the HIPC programme and many IFI loans. For example, it took three years of acrimonious negotiations between the IFIs and Zambia, a country that had already experienced steady economic decline under IFI structural conditionality for some two decades, before the country was granted "completion point" status for debt relief under HIPC in April 2005. During this three-year period, IFI conditions forced Zambia to privatize public enterprises in spite of parliamentary votes not to do so, to decree a public-sector wage freeze in a context of double-digit inflation, and to postpone the hiring of several thousand new teachers needed to reach MDG 2 until the government of the Netherlands came up with an extraordinary grant. Even after Zambia reached the HIPC completion point, the IMF maintained 23 structural and economic performance conditions, ranging from additional privatization to wage ceilings, while the World Bank introduced several others, including restrictions on public utilities, pension reform and wage controls.

5. In the case of Uganda, which became the first country in the world to reach its HIPC completion point after fully embracing IFI-recommended structural reforms, economic growth has slowed in recent years and progress in poverty reduction has stagnated. Despite the fact that Uganda now has the most liberal trade regime in Africa and there are few state-owned assets left to privatize, the IMF has called on Uganda to "launch a second wave" of structural reforms (*Article IV Consultation Report*, June 2005), although the impact of the proposed reforms on poverty reduction are uncertain. In a recent survey of Poverty Reduction Support Credit (PRSC) loans granted by the World Bank to thirteen low-income countries, the European Network on Debt and Development found that in eleven out of the thirteen cases the Bank imposed privatization conditions. In some cases, the PRSC conditions contradicted policies adopted in government-prepared Poverty Reduction Strategy Papers (PRSP).

6. Nor are comprehensive economic policy conditions imposed by the IFIs limited to the poorest countries. In May 2005 the IMF approved a new \$10 billion loan to Turkey which included 29 new financial and structural conditions, including the generation of a sizeable primary fiscal surplus, privatization of \$1.5 billion worth of

state-owned assets within eight months, placing strict controls on public sector hiring, undertaking a review of civil service wages, and adopting new pension and social security reform legislation. The IMF also called for “improved labour market flexibility”. (*IMF Press Release No. 05/104*, May 2005 & *Turkey: Letter of Intent and Memorandum of Economic and Financial Policies*, April 2005). Less than two months after announcing the loan, the IMF suspended payments because the Turkish government had not yet adopted a pension reform law (*IMF Press Release No. 05/157*, July 2005).

7. Argentina, which was considered a star performer by the IMF and World Bank in the 1990s because it adopted a radical IFI-sponsored structural reform agenda, stopped applying the agenda after seeing its GDP shrink by 21 per cent between 1998 and 2002. Rather than assist the government to overcome the severe economic crisis, the IFIs not only cut Argentina off from further lending because it no longer abided by the conditions that had led to economic collapse but obliged the country to make debt payments for a total of over \$12 billion. And rather than assist the government in difficult negotiations with private creditors and owners of privatized utilities, the IMF overtly took position in favour of the private claimants, denouncing the government for being “not constructive” in negotiations with creditors (even though a large majority accepted Argentina’s debt restructuring proposal), and pushing the government to give in to private utility owners, who made claims of doubtful legitimacy such as obliging customers to pay rates in US dollars (IMF, *Article IV Consultation Report*, July 2005). Argentina’s representative to the IMF has stated that the IMF’s current position appears to be that Argentina should “pay the Fund as soon as possible and ... content creditors while risking growth prospects and postponing ... the alleviation of the pressing social needs that besiege much of the country’s population” (IMF, *Statement by Hector Torres, Executive Director for Argentina*, June 2005).

8. It is clear that the privatization of public services frequently imposed by the IFIs as a condition of borrowing or receiving debt relief has had negative impacts on the achievement of the MDGs, particularly MDGs 2, 3, 4, 5 and 6 on education, gender equality, child and maternal health, and the fight against HIV/AIDS. **IFI conditionality attached to loans or debt relief should not be used to pressure developing country governments to privatize or impose user fees for public services, thereby denying access to the poor. On the contrary, the IMF and World Bank should uphold the rights of citizens to control and have access to quality public services.**

### **IFIs should push for trade justice rather than unilateral trade liberalization by developing countries**

9. Along with other members of GCAP, Global Unions have called for trade justice, including the removal of rich country agricultural subsidies that keep people in poverty as well as ensuring consistency of trade policies with respect for workers' rights, and human rights more broadly. Trade justice also entails permitting developing countries to support sustainable development, to protect public services from enforced liberalization and privatization, and to secure the right to food and affordable access to essential drugs. It does not entail indiscriminate liberalization

and imposition of harmful conditions on developing countries. Unfortunately, the IMF and World Bank have frequently used the rhetoric of levelling the playing field for all countries to force developing countries, where the IFIs' influence is strong, to undertake unilateral trade liberalization or enter into harmful trade agreements, while leaving intact unjust trade policies in rich countries, where the IFIs' influence is more limited.

10. Both the IMF and World Bank have expressed doubts about the benefits of many regional trade agreements between industrialized and developing countries (IMF, *Review of Fund Work on Trade*, February 2005 & World Bank, *Global Economic Prospects 2005*, November 2004). The Bank has noted that these agreements frequently include intellectual property rules, prohibition of capital controls and certain trade restrictions that are not to developing countries' advantage. In the specific case of the US-Central America Free Trade Agreement (CAFTA), the Bank issued a report which acknowledged that CAFTA would negatively affect workers and small farmers and "by itself is unlikely to lead to substantial development gains" (*Challenges and Opportunities of DR-CAFTA for Central America*, May 2005). The Bank furthermore warned that "the fiscal impact of DR-CAFTA may be particularly challenging, ... with fiscal revenues potentially falling significantly" (*Country Assistance Strategy (CAS) for the Dominican Republic*, May 2005). Nevertheless, the World Bank enthusiastically endorsed CAFTA and publicly intervened on several occasions in favour of its ratification by the countries concerned.

11. The World Bank's push for unconditional trade liberalization by developing countries has included such dubious advice as urging Uruguay to negotiate a bilateral free trade agreement with the US (*CAS for Uruguay*, May 2005), despite the fact that it is a member of the MERCOSUR common market, and advising Burkina Faso to intensify an export-led growth strategy, even though by the Bank's own admission dependence on cotton exports has led to highly volatile GDP growth rates (*CAS for Burkina Faso*, May 2005). The World Bank has strongly argued against the adoption of measures that would mitigate the shift of textile and clothing production from several poor countries to China following the end of the Multi-Fibre Arrangement. Curiously for a development institution that has many members other than China, the Bank's spokesperson for East Asia-Pacific has been quoted by media as stating that the Bank opposed measures to limit the shift in production to China because they "would only push jobs to other parts of Asia like Cambodia and Vietnam or other regions like Latin America or Africa".

12. Other than blind ideological faith in the inevitable benefits of free trade, a main motivation of the IFIs for pushing developing countries to sign on to trade agreements of questionable benefit seems to be their effect of tying the hands of present and future governments as regards structural reforms. In its analysis of CAFTA, the World Bank declared that "DR-CAFTA commitments promise to lock in a number of policy and regulatory changes ... such as government procurement, intellectual property rights and the treatment of foreign investors, by locking in current levels of access of investors from the US". Among the expected effects of protecting US intellectual property rights are significantly higher pharmaceutical prices for Central American citizens. The IMF, which has created a Trade Integration Mechanism to financially assist developing countries in meeting the obligations of trade agreements to which they adhere, has stated that "trade reforms ... can be instrumental for the

success of reforms in other areas – such as locking in regulatory reforms in other areas” (*Review of Fund Work on Trade*, February 2005).

13. The joint platform of GCAP, which Global Unions have endorsed, includes an affirmation of “the right to determine at national level policies and practices that benefit the majority of citizens, and to resist potentially damaging, externally driven conditions imposed by international institutions and agreements”. These include the right of countries to adopt industrial strategies appropriate to the country’s needs. **Whether they concern privatization, trade liberalization or several other types of economic policy reforms imposed through IFI conditionality, it is obvious that these conditions flagrantly and regularly violate the principles of country ownership and accountable government that the IFIs claim to have adopted several years ago. The IFIs should ensure that their assistance supports – instead of undermining – community- and country-defined development priorities and put an end to the practice of tying aid and debt relief to externally imposed economic policy conditions.**

### **PRSPs must be fully participatory and not be undermined by IFI loan conditions**

14. In a meeting with the IMF and World Bank that took place in April 2005, representatives from the ICFTU, the World Confederation of Labour and trade union affiliates from six low-income countries in Africa and Asia put forward several observations and recommendations for the review of the Poverty Reduction Strategy Papers (PRSP) process. Trade union participants noted that while the number of countries where unions are invited to take part in PRSP consultations has increased, unions are often consulted only late in the process, never included in the drafting phase, and seldom invited to take part in monitoring and implementation. Restrictions on freedom of association remain an obstacle to meaningful trade union participation in some countries and insufficient access to government and IFI documentation and to capacity building has been frequently mentioned. Overall, unions expressed dissatisfaction with the lack of attention to labour concerns – employment creation strategies, improvement of working conditions and respect of labour rights – in most finalized PRSPs.

15. Trade unions also expressed their concern about the manner in which the IFIs frequently undermine the relevance of the PRSP process by negotiating major structural or economic policy choices through parallel processes in which there is no opportunity for civil society input. The European Network for Debt and Development (Eurodad) recently identified five countries where the World Bank included privatization conditions in PRSC loans, despite the fact that the PRSPs for those countries did not call for privatization. The five cases identified by Eurodad pertain to the cotton sector in Burkina Faso, electricity in Ghana, telecom in Mozambique, health care in Senegal, and water management in Guyana. Macroeconomic policy conditions established by the IMF through PRGF loans also generally disregard how the issues are dealt with in the PRSP, a practice that was recently affirmed as official IMF policy in a *Policy Note for Fund Staff on the Modified Poverty Reduction Strategy Framework* (June 2005): “Fund conditionality should be used to remedy weaknesses in the [poverty reduction] strategy as it is implemented in the PRGF-

supported programs (e.g., an unrealistic macroeconomic or fiscal framework) where correction of the weakness is critical to the achievement of [IMF] programme objectives”.

16. Trade unions have made several recommendations to the IMF and World Bank for ensuring that PRSPs genuinely respect the principles of country ownership and civil society participation on which they are supposed to be based<sup>2</sup>. Obviously, the Bank and Fund should set the example by ensuring that their own country-level development plans and projects, including IMF Article IV reports and World Bank CAS, are fully participatory. In their country-level reports on PRSPs, **the IFIs should call attention to inadequacies in the consultative process, including impediments to trade union participation such as restrictions on freedom of association.** The World Bank can help countries address the absence of labour content by, in its own publications, showing how violations of core labour standards contribute to persistence of poverty, focussing on employment-intensive growth schemes, and outlining needs for improved worker protection. **The IFIs should encourage parliamentary ratification of PRSPs and the use of existing social dialogue structures, and make resources available to trade unions and civil society organizations for capacity building, research and preparation of policy alternatives, as part of all national PRSP processes.**

### **World Bank social protection programmes should give priority to improvement of coverage, not to unrelated goals**

17. Global Unions have long proposed that the IMF and World Bank should encourage and assist countries to develop and maintain comprehensive social protection programmes as part of the decent work agenda and in order to meet the challenges of increasing labour market instability brought on by the forces of globalization. These programmes should include unemployment benefits, child and maternity support, sickness and injury benefits, and old-age pensions. The Bank has been particularly active on the last theme for more than fifteen years; however the Bank’s main focus has been on the reform of existing pension systems, generally through downsizing and privatization, rather than helping countries that have no old-age security system to establish one. According to the Bank’s own analyses, the standard reform model it has promoted of reducing public pension systems and creating mandatory privatized “second pillar” accounts has proved to be inefficient, costly (the administrative costs of private accounts being far higher than the public systems), reinforcing of inequality, unsuccessful in extending coverage, and has put considerable strain on public finances as contributions are diverted into the private accounts (World Bank, *Keeping the Promise of Old Age Income Security in Latin America*, November 2003). In most of the Bank-sponsored reforms, women have fared worse under the new systems than have men.

18. In May 2005 the Bank launched a revised pension policy paper, *Old-Age Income Support in the Twenty-First Century*, that acknowledges several of the failures of the privatization approach, but then reaffirms the same policy under the pretext that countries should put in place the complex bureaucracy for administering millions of

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<sup>2</sup> Global Unions, “Trade Unions and PRSPs: Lessons from the first five years”, April 2005

second-pillar privatized accounts as a “benchmark” to measure the performance of the public system. Such a justification seems as plausible as suggesting that a city should build an expensive network of automobile expressways not to carry significant traffic, but just to measure whether it could get people around the city as effectively as the existing subway system. In actuality on a country level, the World Bank has pressured countries that have taken the plunge and invested in the establishment of second pillars to subsequently increase contributions to the private accounts, and to decrease those to the public system, in order to make the private system more viable.

19. Recent IFI country-level policy documents contain numerous reminders of the continuing damage caused by the World Bank’s pension reform model. The Bank’s *CAS for El Salvador* (April 2005) notes that managing the so-called transition costs (from diverting pension contributions to private accounts) of a Bank-sponsored reform introduced almost a decade ago “is currently an important challenge in El Salvador” and supports the elimination of early retirement provisions as one of several measures needed to reduce the costs. In Colombia, where a Bank-recommended pension privatization was adopted in 1993, the IMF predicts that, despite several increases in contributions and cuts in benefits, the government’s net pension costs are expected to increase steadily and reach 5.9 per cent of GDP in 2005. The IMF suggests that the costs of the pension reform will require a reduction of other public services: “As a result [of pension reform costs], the nonpension balance of the public sector would have to continue to strengthen over time” (*Article IV Consultation Report*, May 2005).

20. The World Bank shows no reticence in getting involved in controversial pension debates even in countries where it provides no financial support. In launching *Old-Age Income Support in the Twenty-First Century*, the Bank signalled moral support for the proposal of the Bush administration in the US to partially privatize the Social Security system (*World Bank News Release No. 2005/456/HD*), even though US congressional leaders have suspended consideration of the proposal in the face of strong public opposition. Interestingly, the Bank’s sister institute is much more critical of the Bush plan, noting that it would “imply a significant increase in federal deficits and debt in coming decades” (IMF, *Article IV Consultation with the US: Concluding Statement*, May 2005).

21. Old-age pension systems do face important challenges in many countries. A starting point for establishing a new system or reforming an existing one must be that **any changes to the pension system should be designed so as to improve the system for workers and retirees, not to prioritize unrelated goals such as forcing retirees to give up part of their pension benefits to inefficient private-sector administrators on the pretext that this will help the financial services industry develop.** In 2001, the International Labour Organization’s annual conference adopted a tripartite consensus on several points concerning the future of social security, including giving highest priority to the extension of those not covered and strengthening, rather than weakening, solidarity systems. **The World Bank would do well to revise its own role in conformity with the ILO’s consensus when intervening on the theme of old-age security.**

## Respect for workers' rights: A key element in achieving the MDGs

22. A majority of the world's extreme poor, defined by the World Bank as earning less than \$1 per day, work for their living, but at conditions that keep them in extreme poverty. 60 per cent of the working poor are women. Access to decent employment – jobs that allow the exercise of fundamental workers' rights, provide adequate wages and safe working conditions, and include social protection coverage – is essential to successful poverty reduction, reduction of inequalities between men and women, and attainment of other MDGs. Although some World Bank publications have made the link between violations of workers rights, low wages and poverty reduction, and have underlined the importance of observing the core labour standards (CLS)<sup>3</sup>, these are only rarely followed up in country-level Bank analyses and policy recommendations.

23. Since the 1990s, IDA replenishment agreements have recommended that the Bank's Country Assistance Strategies include an assessment of application of CLS in the country. An examination in August 2005 of the twelve most recent CAS published by the Bank found only one, the CAS for Cambodia, that included the recommended assessment of observance of CLS. Instead of analysing the link between poverty and inadequate respect for labour standards, most of these CAS focus on the need to reduce protection for workers so as to increase "labour market flexibility". Such is the case even when CLS violations have been amply documented by ILO reports. For example, the violations of CLS which are at the root of extreme poverty in the Dominican Republic's *bateyes* are completely ignored in the Bank's CAS (which does recognize that "virtually all residents of the *bateyes* live below the poverty line"). The CAS only deals with labour issues to the extent that the country is advised to increase "labour competitiveness", implying that workers are treated too generously (*CAS for the Dominican Republic*, May 2005).

24. Like its sister institutions, the IMF frequently makes policy recommendations on labour issues and sometimes includes loan conditions aimed at increasing labour market flexibility. In the case of Bulgaria, the current *Stand-By Arrangement* requires that the country change or do away with its maximum hours law and eliminate seniority wage premiums (*Stand-By Arrangement Review*, May 2005). The IMF would no doubt also impose labour market deregulation on industrialized countries if it could, since the Article IV reports for these countries often include strong condemnations of all varieties of worker protection. For example, the IMF's most recent *Article IV Consultation Report* for the Netherlands (July 2005) criticizes the country for unemployment benefits that are too long, hours worked that are too short, and wages that are not unequal enough.

25. The driving force for both the World Bank and IMF on labour issues is the Bank's Private Sector Development division, which in 2003 began publishing a country-by-country index whereby each country receives penalty points if it provides various kinds of protection or regulation, on the basis of the simplistic premise that all labour

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<sup>3</sup> 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).

regulations are bad for business. The “rigidity of employment index”, published in the Bank’s annual *Doing Business* publication, dispenses penalty points for misdemeanours such as rules requiring the provision of social protection to part-time workers (most of whom are women); minimum wages set at levels the Bank considers too high (even \$20 a month is considered too high for many African countries); maximum hours laws stipulating a work-week of anything less than 66 hours; advance notice of dismissal requirements; and affirmative action programmes aimed at combating racial or gender discrimination.

26. Global Unions have submitted a detailed critique of the labour chapter of *Doing Business in 2005*, pointing out the flaws in the analysis and the policy implications of the penalty system, and inviting the Bank to completely revise its simplistic and harmful approach on labour reform. Global Unions’ submission<sup>4</sup> puts forward an alternative four-point proposal on how the Bank can contribute to helping countries design labour reforms that lead to improved respect of fundamental workers’ rights, creation of decent employment and overall economic and social development.

27. Global Unions have stated the IMF and World Bank should ensure that, at the very least, their own operations are consistent with the CLS and that the projects and programmes that they fund do not violate them. Global Unions have taken part in consultations that began over a year ago for the revision of the International Finance Corporation’s social and environmental “performance standards” for IFC loans and have provided several suggestions. **Global Unions recommend that the IFC move expeditiously and adopt standards that ensure the respect of internationally recognized workers rights as expressed in the eight ILO core conventions, address the adverse impacts of retrenchment, and provide a safe and healthy work environment. The new standards should include clear and effective mechanisms for implementation and enforcement.**

## Conclusions

28. **Achieving the MDGs requires a wide range of actions as called for by the Global Call to Action against Poverty (GCAP). Trade unions welcome the commitments to increased debt relief and development assistance made by G8 countries and call on the IMF and World Bank to fully implement the commitments, and furthermore extend debt relief to a greater number of countries that respect human rights than those included in the existing HIPC programme. The IFIs should put an end to the frequently harmful and delay-creating economic policy conditionality, such as privatization of public services and unilateral trade liberalization, attached to debt relief and other assistance. Financial assistance should be made in support of genuinely participatory national development plans formulated by the country that advance the achievement of the MDGs. Rather than intervening in support of narrow business interests, IFI lending and policy recommendations concerning social security and labour regulations should give priority to decent employment creation, comprehensive social protection, and respect of core labour standards.**

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<sup>4</sup> “Comments by ICFTU/Global Unions on the World Bank’s *Doing Business in 2005: “Hiring and Firing of Workers”*”, May 2005

**It follows that the IMF and World Bank must ensure that their own policies and practices are consistent with observance of those standards.**

### **THE MILLENNIUM DEVELOPMENT GOALS**

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower woman
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

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