

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

ADVANCING THE GLOBAL CALL TO ACTION AGAINST POVERTY

**Statement by Global Unions to the 2005 Spring Meetings of the
IMF and World Bank (Washington, 16-17 April 2005)**

Introduction

1. During the World Social Forum in Porto Alegre (26-31 January 2005), the ICFTU and other member organizations of Global Unions joined with a wide-ranging alliance of groups to launch the *Global Call to Action Against Poverty*². The alliance is pledged to mobilize support in favour of trade justice, debt cancellation, more and better aid, and concerted efforts to reach the Millennium Development Goals (MDGs). The Washington-based international financial institutions (IFIs) have assumed major responsibilities in designing partial debt relief initiatives, in channelling development aid, and in creating national development plans whose professed aims are to achieve the MDGs. That these efforts will not be sufficient to reach the development goals has been demonstrated by the World Bank's first Global Monitoring Report on the MDGs, which concluded that, based on current trends, most MDGs will not be met by most developing countries by the 2015 target date. **Global Unions urge the International Monetary Fund (IMF) and World Bank to adopt the measures put forward in this statement in order that their actions consistently contribute to the eradication of poverty and the attainment of the MDGs, as advocated by the *Global Call to Action Against Poverty*.**

New initiatives for debt cancellation and improved development assistance

2. Global Unions and their affiliates have been advocating more generous debt relief and its expansion to a greater number of countries for many years. Affiliated trade union organizations in some low-income indebted countries have witnessed the beneficial impact of partial debt relief received through the Heavily Indebted Poor Countries (HIPC) programme and have joined other organizations in calling for full debt cancellation so that governments can further expand public services that are essential to attaining the MDGs. Global Unions' affiliates in industrialized countries have lobbied their governments to support full debt cancellation and to allocate the public funds necessary to finance additional resources for low-income countries, including for debt relief. The IFIs' own HIPC progress reports, which have shown that debt levels have remained unsustainable even for countries having received full HIPC assistance, have amply demonstrated the need for expanded debt relief. However the trade union movement has been disappointed that, in spite of positive rhetoric at the last several IFI biannual meetings, concrete actions have been delayed from meeting to meeting, in part because of disagreements between donor countries on the specific elements of an expanded debt relief initiative.

¹ The ICFTU represents unions in 154 countries with a total of 145 million members. The ICFTU works closely with the Global Union Federations (GUFs), 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>

² Information on the Global Call for Action Against Poverty can be found on GCAP's web site: <http://www.whiteband.org>

3. Recent statements by the G7 countries expressing support in principle for up to 100 per cent debt cancellation have been encouraging. However Global Unions believe that the new initiative must not be limited by the constraints of the HIPC programme, which severely restrict the number of countries considered eligible for debt relief. For example, despite being the poorest country in the western hemisphere, Haiti has been excluded from consideration for debt relief because its level of indebtedness has not met HIPC parameters. As a result, the almost bankrupt Haitian administration was forced to make a payment to the World Bank of \$52.6 million in January 2005 in order to become eligible for a new Bank lending programme.

4. Global Unions believe that an important new debt cancellation initiative must be adopted in 2005. This can be financed by a re-evaluation of IMF gold stocks, some transfer of resources from the IBRD (the Bank's non-concessionary lending arm), and additional contributions from industrialized-country development budgets. Global Unions' affiliates in industrialized countries have campaigned jointly with other organizations in favour of increased development aid. These campaigns have already had positive results in some countries. However trade unions will continue their campaigns as long as the 0.7 per cent official development assistance target is not reached. **Debt relief should be extended to all low-income countries respecting human rights that have a shortfall of resources to meet the MDGs. It should consist of 100 per cent cancellation of debt owed to the IFIs, not be dependent on structural adjustment conditionality, and not reduce concessionary assistance from the IFIs or other international assistance. Global Unions furthermore support new mechanisms to increase financial flows to developing countries, such as those included in the joint Brazilian-French-Chilean-Spanish initiative, and also endorse the British proposal for an International Finance Facility (IFF).** In the medium term, new forms of international taxation should be implemented to avoid a shortfall in aid as IFF loans become repayable.

5. As regards another category of highly indebted country – middle-income developing countries whose debt is owed principally to private creditors – the prolonged crisis concerning Argentina's economic collapse, default, and arduous debt restructuring negotiation constitute ample proof that another way must be found to restructure unsustainable debts. Global Unions welcomed the IMF's initiatives at the beginning of the decade to create a Sovereign Debt Restructuring Mechanism, though we were critical of various aspects of the proposal, some of which concerned the Fund's own role in applying the mechanism. The manner in which the IMF intervened on numerous occasions in Argentina's recent debt restructuring procedures by attempting to pressure the government to increase its offer to private creditors, even though a strong majority of the latter ultimately accepted the terms proposed by the government, raises the question of whether the Fund can realistically be counted on to act as a neutral broker, let alone in the interests of the indebted country.

6. Argentina's difficulties with the IMF have not yet come to an end, since the Fund must still approve conditions for extending payments of monies owed to it. Argentina is understandably reluctant to allow the Fund to impose yet another structural reform programme in spite of the Fund's claims that such a programme is necessary for Argentina to achieve a sustained growth path. The last time that Argentina attempted to abide by an IMF structural reform programme, the country's GDP shrunk by 21 per cent (between 1998 and 2002 in real terms, according to IMF data). **Global Unions reiterate their support for a fair and transparent debt restructuring mechanism, so as to facilitate the restructuring of unsustainable debts owed largely to private creditors, and to prevent or control the spread of international financial crises. In addition, the IMF should adopt a less restrictive form of contingent credit facility, support**

closer coordination of major currencies, and encourage the adoption of measures such as capital controls and the Tobin tax to limit speculative capital movements.

An end to privatization and structural reform conditionality

7. In a report published last year on *Reforming Infrastructure*, the World Bank spoke of the IFIs' previously exaggerated enthusiasm for privatization as a solution for various problems and characterized their pro-privatization stance as "irrational exuberance". Constructive self-criticism is a positive trait, on condition that it leads to correction of the identified misconduct, which in this case was an unjustified bias in favour of privatization and against public sector solutions. Unfortunately, various IMF and World Bank policy documents, both on the international and country level, still show a strong bias against public provision. One example of this is to be found in the approach called "Output-Based Aid", which the Bank has developed to promote the effective use of public funds for delivery of infrastructure services. While there is no reason given why public services delivered by public providers could not be evaluated on the basis of the outputs actually delivered, Bank publications specify that the government must "delegate service delivery to a third party under contract". Consistent with this approach, several recent World Bank *Country Assistance Strategies* (CAS) have stated that loans will require contracting public infrastructure services out to private sector firms. The April 2004 CAS for Costa Rica, for example, stipulates that World Bank financial support requires that water and sanitation services must be "transferred to specialized private operators" while "greater private sector involvement" will also be demanded in order to obtain loans for other services.

8. In the case of the IMF, a number of recent *Article IV Consultation* and other surveillance reports, such as those for Algeria and Nigeria (both February 2005) recommend an accelerated pace of privatization, even while recognizing the social costs. A January 2005 IMF/WB *Joint Staff Assessment* of Kenya's Poverty Reduction Strategy Paper (PRSP) berates the Kenyan government for not giving more emphasis to privatization in the country's PRSP implementation report. Other IMF reports have reminded governments of privatization conditionality, such as Nicaragua's obligation to introduce a partially privatized pension system in order to benefit from full HIPC benefits. The IMF's November 2004 *PRGF Review* for Nicaragua states that "the public sector deficit was expected to widen by 1.2 per cent of GDP a year as a result of the start of private pension funds (because of lower contributions)", but the Fund sees no reason against proceeding even if the increased deficit could be used as a pretext to reduce other government services. The latest World Bank CAS for Serbia and Montenegro (November 2004) advises the government that it must take measures to reform its pension system "with a view to introducing second and third [privatized] pillars". Such a prescription is surprising in view of the Bank's latest enunciation of its pension reform policy, *Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform*, February 2005. This policy document claims that the Bank has adopted a more flexible approach on pension reform and no longer imposes its classic three-pillar privatization model, which has had many negative impacts on workers and retirees, on women in particular.

9. A recent British government policy document, *Rethinking Conditionality* (DFID, March 2005), notes that IFI and other donor conditionality on issues such as privatization and trade liberalization have frequently had negative social impacts; have been forced on developing countries "regardless of whether these were in the countries' best interests"; and have prevented poor countries from incorporating lessons from successful development models, notably in East Asia. The British policy paper states that suspension of assistance, which is sometimes carried out by the IMF for misdemeanours as slight as temporarily going "off target" from budget expenditure guidelines, should only occur in three circumstances: violation of human rights,

corruption, and diversion of aid to unintended purposes such as military expenditures. **Global Unions endorse the call for a substantial reduction of conditions placed on loans and grants, and in particular the elimination of structural conditionality that imposes measures of doubtful benefit to receiving countries, such as service privatization and trade and investment liberalization. Global Unions will continue to argue for a strong public sector, particularly in vital services areas, and to defend the interests of workers adversely affected by privatization. The World Bank and IMF should carry through on their commitments to give the same attention to funding of improvement and modernization of services under public control as under private control, and to undertake proper consultation of workers affected by privatization and restructuring.**

Need to correct IFIs' push for labour law deregulation

10. Even though a specialized intergovernmental body, the International Labour Organization, exists to establish international labour standards and provide expert advice to countries on labour issues, a growing number of IFI country-level reports include recommendations on labour markets questions. A recent examination of *Article IV Consultation* reports produced by the Fund over a four-month period (November 2004-February 2005) found that 80 per cent of them included recommendations on labour issues. These ranged from comments on the need to reduce labour market "rigidities" in Mexico and Pakistan, to increase labour market "flexibility" in Korea, and to reform the collective bargaining system in Spain. In the case of Germany, close to one third of the November 2004 Article IV report deals with the Fund's recommendations for instituting further reforms in the legal framework for collective bargaining, facilitating dismissal of workers, and making "deeper cuts" to pensions and health care. Ironically, other sections of the Fund's report for Germany note that the benefit cuts already made, combined with stagnant wages, have undermined consumer confidence and are the principal explanation for a sluggish economy and increasing unemployment.

11. Most World Bank CAS, as well as other country-level reports, also advise governments to attack identified problems of labour market "rigidities" or "inflexibility". Some recent examples are the CAS for Bosnia (August 2004) and India (September 2004) and the PRSP *Joint Staff Assessment* for Kenya (January 2005). The CAS for these countries and several others announce ongoing World Bank research for formulating changes to the countries' labour legislation. While trade unions are frequently engaged in national dialogues in view of modernizing national labour legislation, they have been very critical of the fact that the Bank's main input to national labour reforms has been based on the simplistic premise that any kind of labour regulation, other than those strictly limited to the core labour standards, is inherently bad for development and should be removed. In September 2004 the Bank made public country-by-country Labour Market Flexibility Indexes, calculated on the basis of indicators such as maximum hours rules, minimum wages, and protections against dismissal. Through the *Doing Business* publication and specific country reports, the Bank invites governments to make their countries more "investment friendly" by dismantling the above standards, as well as numerous other forms of worker protection.

12. Confronted by the impact of globalization and economic restructuring on national labour markets, trade unions have lobbied governments to put in place or expand social protection measures so as to better protect workers and their families in case of job loss or other eventualities that could lead to sudden reduction of income, and to ensure that women workers have a full opportunity to benefit from employment. While the Bank has agreed in principle with these proposals, on a country level the Bank frequently discourages such initiatives or even works to undermine those social protection programmes that exist. For example, in Bulgaria – a country which is scheduled to join the European Union in 2007 – the World Bank country team informed

an international trade union delegation that the Bank was encouraging the government to cut back unemployment benefits because the programme allowed for “leakage to the non-poor”. The Bank thus ignored the fact that, by definition, unemployment benefits are an income-maintenance rather than a strictly targeted anti-poverty programme, and that they have an important role to play in well-functioning labour markets as workers move from one job to the next. Similar attacks on income maintenance schemes intended to protect dismissed workers are underway in other countries under the guise of “targeting the most needy”. In Kenya, the IMF/WB *Joint Staff Assessment* of the PRSP discourages the government from going forward with a compulsory national health insurance scheme.

13. Global Unions believe that the IMF and World Bank should encourage and assist countries to develop and maintain comprehensive social protection programmes. These should include old-age pensions, unemployment benefits, child support, maternity, and sickness and injury benefits. Furthermore, the IMF and World Bank must support labour market policies that underline the importance of decent work, that is, policies for maximizing employment creation within a framework of properly implemented labour laws that recognize workers’ rights to earn an adequate income, work in safe conditions, combat discrimination, and be protected from abuse, with full application of the ILO’s core labour standards. Trade unions need to be fully consulted on proposed amendments to labour legislation.

Measures to make IFI operations consistent with core labour standards

14. On the theme of the core labour standards³ (CLS), trade unions have welcomed the World Bank’s recognition of their positive development impact and the agreement to promote them when the Bank deals with labour issues. Global Unions have encouraged the Bank to go beyond rhetorical support and to ensure that the Bank’s own operations are consistent with the standards. An important step was taken by IFC management in 2004 in their proposal to include the principles of the CLS as “performance requirements” for all IFC loans. These new safeguard standards are currently under consultation. Global Unions have recommended that the standards make direct reference to the relevant ILO conventions and also include clearer mechanisms for implementation and enforcement. Global Unions will make further representations to the IFC on these matters.

15. The other divisions of the World Bank group, as well as the IMF, should also take measures to ensure that, at the very least, the projects and programmes that they fund do not violate CLS. Global Unions have called to the attention of the Bank instances of violation of CLS in Bank-funded infrastructure projects, and in March 2004 the International Federation of Building and Woodworkers submitted detailed proposals for including labour standards in the Bank’s procurement contracts. One year later, the Bank has yet to respond to these proposals. **The report of the World Commission on the Social Dimension of Globalization emphasized that all IFI policies must support, and must not undermine, compliance with CLS. Global Unions support the requirement to include all four core labour standards in IFC loans as a standard safeguard. CLS should also be included as obligatory clauses in the standard bidding document for World Bank procurement as well as in other Bank loan agreements,**

³ 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).

and the Bank must make certain that its projects and operations provide safe working conditions and decent wages. Likewise the IMF, which frequently dispenses advice on labour-related issues, must ensure that its policy recommendations are consistent with CLS and other ILO conventions that the country has ratified.

Genuine country ownership of Poverty Reduction Strategy Papers

16. Since the Poverty Reduction Strategy Papers (PRSP) approach was introduced in 1999, trade unions in the PRSP countries have worked to overcome many obstacles to their participation, including instances in early PRSPs of unions being excluded from consultations. Following campaigns by Global Unions and national affiliates, an increasing number of unions have been invited to participate, as documented in the World Bank's *Trade Union Participation in the PRSP Process* (August 2004). However, with a small number of exceptions, positions put forward by unions are not reflected in finalized PRSPs, most notably recommendations with regards to employment creation and labour conditions, despite the obvious importance of these issues for poverty reduction. In addition, proposals of unions and many other civil society organizations on macroeconomic and structural policy choices are frequently ignored in the final PRSP, something that was confirmed last year in assessments prepared by the World Bank's OED and the IMF's IEO, and also in a joint IMF/WB *Concept Note: 2005 PRS Review* (February 2005).

17. Meetings have been planned in April 2005 between the IFIs and trade unions and other civil society organizations in the framework of the review of the PRSP process that is currently underway. Unions will highlight the fact that, when given the opportunity to do so, they will take part in national PRSP processes to the extent that their participation has an impact. In countries where trade union proposals on employment, labour and structural policies have been completely ignored or superseded by IFI loan conditions, unions question the usefulness of continuing to take part in the process. Genuine country ownership means that countries are allowed to develop policy option in PRSPs that incorporate broadly shared national priorities, which can be expressed through civil society and also through national parliaments. Parliaments must be given an opportunity to debate on and adopt the PRSP. **The IMF and World Bank must encourage borrowing countries to develop policy options in PRSPs that truly reflect national priorities to reduce poverty, rather than standard IFI prescriptions to prioritize market-oriented economic liberalization. A requirement for civil society recommendations to be taken up seriously needs to become a part of the IFIs' approach to attaining the MDGs in countries implementing PRSPs.**

Democratization of development strategies and IFI governance structures

18. The IFIs have given much emphasis in recent years to the importance of country ownership over policy choices, whether through the PRSP process or other instruments. As the IFIs have stated to be one of the aims of the PRSP process, this should entail taking the policy choices out of the exclusive hands of the finance ministry or the executive, and allowing the government as a whole and national parliaments to have their say. Unfortunately, the Bank and Fund frequently do not live up to the "country ownership" rhetoric when it comes to formulating lending agreements. For example, beginning in 2002 the IMF has pressured Zambia's executive to renege both on the country's PRSP and decisions of the national parliament by including specific privatization conditions in PRGF loans, even after the PRSP and parliament had rejected these measures. The World Bank's latest CAS for Costa Rica (April 2004) contains the surprising stipulation that "conditions agreed with the Executive related to key reforms should be strictly under the control of the Executive and not dependent upon Congress approval". **Rather than**

objecting to parliamentary control over national development strategies, the IFIs should, in the spirit of true country ownership, encourage countries to make development plans and lending agreements with the IFIs subject to parliamentary approval.

19. The issue of democratic control over development decisions is also frequently raised with regards to the IFIs' own outdated governance structures, where developing countries are severely under-represented. Recently, the ICFTU joined with a number of other civil society organizations to object to the most visible demonstration of the democratic deficits at the IFIs, namely the selection process for the top positions in the IMF and World Bank. The non-transparent manner in which the managing director of the IMF and president of the World Bank are chosen, and the unwritten convention which reserves the decision to one country or a specific group of countries, are in flagrant contradiction with the IFIs' demands on borrowing country governments that they operate in a transparent and accountable fashion. **Global Unions call on the IMF and World Bank to establish transparent and accountable processes for the selection of the heads of the institutions, and move forward on proposals to improve the representation of developing countries on the executive boards of the IFIs.**

Conclusions

20. Trade unions have committed themselves to the achievement of the Millennium Development Goals and to the *Global Call to Action Against Poverty* in order to mobilize support, jointly with other organizations, in specific areas that are vitally important to poverty reduction. The IMF and World Bank have key roles to play in launching an expanded debt cancellation initiative in 2005, which will be one of the major instruments for making substantial progress in poverty reduction in heavily indebted countries, as well as other measures to increase financial flows to low-income countries. The IFIs should take steps to eliminate highly constraining structural adjustment conditionality, to permit genuine country ownership of national development strategies, to make their operations consistent with core labour standards, and to democratize their governance structures. In addition, the IFIs should ensure a greater degree of consistency with other international organizations by implementing the recommendations of the World Commission on the Social Dimension of Globalization in its call for increased coherence between the IMF, World Bank, WTO, ILO and other relevant UN bodies, including through policy coherence initiatives.

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