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INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS (ICFTU)
GLOBAL UNION FEDERATIONS (GUFs)
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**IMPLEMENTING A DECENT WORK AGENDA TO
ACHIEVE SUSTAINABLE POVERTY REDUCTION**

**Statement by Global Unions to the Spring 2004 Meetings of the
IMF and World Bank (Washington, 24-25 April 2004)**

Introduction

1. In recent years, the International Monetary Fund (IMF) and World Bank have made poverty reduction their priority, committed themselves to helping achieve the Millennium Development Goals (MDGs), and professed to pay greater attention to the social and environmental impact of their policies and programmes. While trade unions have welcomed these commitments, they observe that the International Financial Institutions (IFIs) do not always act consistently and even act in contradiction with these goals. This is nowhere more evident than in the area of actions concerning labour-related issues. Whereas some divisions of the World Bank emphasize the importance of improving wages and working conditions of the working poor, other units of the IMF and World Bank promote wage reductions and decreased protection for low-income workers as growth-enhancing strategies. Whereas, in the social protection field, the World Bank has been involved in pension reform with the avowed objective of increasing coverage and protecting the interests of retirees, the Bank's own reports indicate that the Bank's reforms in Latin America have not significantly increased coverage or reduced old-age poverty and have made a number of pensioners, especially women, worse off, thus confirming what unions have been saying for over a decade.

2. Increasingly, various forums are calling for the IFIs to act in greater consistency with other organizations that are working towards achievement of poverty reduction and the other MDGs. The efforts to obtain consistency in actions should also take place within and between the two IFIs, in areas such as international financial stability, debt relief, use of the PRSP process, support for public services, broadening of social protection, creating decent work and respecting the fundamental rights of working men and women.

Increased respect for labour rights contributes to poverty reduction

3. Almost five years have passed since the IFIs declared poverty reduction to be their overarching goal, but they are only slowly starting to come to grips with the fact that durable progress towards this objective will only be obtained when proper attention is given to raising employment prospects and improving the working conditions of those whose main or only asset is their labour. Overall economic growth is obviously an important objective for all countries, but

¹ The ICFTU represents unions in 150 countries with a total of 158 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>).

there have been too many cases where policies adopted on the pretext that they would enhance growth have contributed to unemployment, rising inequality and falling income for the lowest strata of society. Insufficient attention paid to employment creation, low wages, declining labour standards, and abuse of workers' rights, especially of women workers, are part of this process. A recent ILO report indicated that 60 per cent of the world's 550 million working poor are women due to the continuing widespread practice of paying lower wages to women workers.

4. A growing number of the IFIs' own country-level reports document the link between rising inequality, persistence of poverty, and violations of labour rights. For example, a June 2003 IMF-World Bank *Joint Staff Assessment* of Bangladesh's Poverty Reduction Strategy Paper (PRSP) notes that "the increase in inequality during the 1990s dampened the poverty impact of growth significantly". The previous World Bank *Country Assistance Strategy (CAS)* for Bangladesh underlined the widespread use of child labour and the prohibition of freedom of association in the export processing zones; both phenomena constitute violations of the core labour standards. The *Joint Staff Assessment* for Nicaragua (January 2004) also underlines the link between child labour, school non-attendance and reproduction of poverty. Ecuador's most recent *CAS* (May 2003) mentions that the country has one of the highest coefficients of income inequality in the world and that inequality has continued to increase, in part because employers have succeeded in pushing down real wages. The *CAS* also explains how outsourcing is used by employers in Ecuador to "deny workers employee rights".

5. Not only do violations of labour standards and declining wages contribute to poverty, but they have also become an impediment to overall economic growth and social development in a number of countries, according to the IFIs' own reports. For example, Ecuador's *CAS* notes that wage lowering practices "have constrained productivity-based economic growth" in the private sector. "Inadequate pay" in the public sector is mentioned in Georgia's *Joint Staff Assessment* (November 2003) as a significant obstacle to creating a more effective civil service. In another *Joint Staff Assessment* for Malawi (November 2003), the IMF-World Bank team explains that "poor remuneration" for teachers and health care workers are preventing implementation of the PRSP and attainment of the Millennium Development Goals in that country because they are the cause of high attrition rates among education and healthcare workers.

6. A number of the IFIs' country level reports assert the negative impact that poor working conditions and labour rights violations can have on poverty reduction and economic development, and these are sometimes reflected in policy statements by World Bank representatives in favour of the respect of core labour standards and other measures to protect workers' living standards. However, all too frequently these statements are contradicted by policy advice of an entirely different nature dispensed in high-profile World Bank publications, such as the recently-published *Doing Business in 2004: Understanding Regulation*. While the long version of this publication mentions core labour standards, the much more widely circulated twenty-page summary posted on the Bank's web site suggests that labour standards only play a negative role and proposes that "the deregulation experience", consisting of "reduction of the scope of employment regulation", is the model that all countries should follow. Reduction of minimum wages and generalization of contracts "at will" between employers and employees are among the measures that this publication promotes to make economies more investment-friendly. The IMF often engages in similar types of promotion of reduction of workers' protection. Such was the case with the April 2003 *World Economic Outlook* in which the IMF, on the basis of highly questionable analysis, proposed that European Union countries could eliminate most of their unemployment by adopting US-style labour-market and competition rules. These would include bringing unemployment insurance coverage, employment protection measures, and unionization rates down to the lower US levels.

7. Both the World Bank and the IMF have given much attention recently to the overall investment climate of countries as being key determinants of their growth potential, and have above all emphasized the importance of securing property rights. While the trade union movement certainly supports the rule of law, including the enforcement of property rights, the IFIs' tendency to insist on the pre-eminence of property rights above all other rights is disturbing, especially when one takes into account the fact that labour laws are frequently not enforced and human rights are under threat in a number of countries. By emphasizing the rights of those who have accumulated wealth, i.e. property rights, but playing down the rights of those whose only asset is their labour, i.e. labour rights, the IFIs risk promoting increased income inequality. The upcoming *World Development Report 2005* (WDR) on the theme of *Improving the Investment Climate for Growth and Poverty Reduction* provides an opportunity for the World Bank to present a more balanced approach on this matter, since the publication is supposed to examine conditions for *poverty-reducing* investment and growth. The WDR could emphasize the importance of putting in place appropriate corporate governance and accountability rules, as well as conditions for creating decent work. The outline for the WDR made available indicates, however, that much work needs to be done to ensure proper balance.

8. Global Unions encourage the World Bank to develop labour market policies that underline the importance of decent work, that is, policies for maximizing employment creation and establishing and enforcing laws that recognize workers' rights to earn an adequate income, work in safe conditions, and be protected from abuse. Respect of the core labour standards² must be the pillar of a proper labour regulatory system and also incorporated into the operations of the IMF and the World Bank, given that much of their lending and technical advice has a direct impact on labour. We note a growing recognition of the importance of ensuring that World Bank operations are consistent with the core labour standards, such as the IFC's recent inclusion in a project loan of the requirement that the borrower respect freedom of association and the right to collective bargaining, as well as standard prohibitions against child labour and forced labour.

9. The requirement to abide by all four core labour standards should be included in all IFC loans as a standard safeguard, and also included as obligatory clauses in the standard bidding document for World Bank procurement as well as in other Bank loan agreements. Likewise the IMF, which frequently dispenses advice on labour-related issues, must ensure that its policy recommendations are consistent with the core labour standards and other ILO conventions that the country has ratified.

Social protection: World Bank must revise policy on pension reform

10. The trade union movement has long advocated the establishment of a wide range of social protection schemes to protect all members of society against the consequences of unemployment and sickness, to assure a retirement income to older members of society, and to raise the standard of living of the most vulnerable. In rhetoric, the IFIs have acknowledged the importance of social

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

protection as an essential element of a poverty reduction strategy. For example, in a *Social Protection Sector Strategy* published three years ago, the World Bank claimed to have learned the importance of implementing large-scale social protection measures because of what happened during the financial crises of the late 1990s: “The crises and the downturn in the East Asian ‘miracle’ countries showed that growth and sound economic policies, while necessary, are insufficient for sustained poverty reduction.” Other World Bank publications make the point that inadequate social protection in the age of globalization can become an obstacle to economic growth. For example, a recent publication of the Bank’s Latin American region (*Keeping the Promise*, November 2003) stated that “there may be reason to believe that access to social security – unemployment benefits, anti-poverty programmes, and retirement income schemes – can facilitate openness and other growth-oriented economic policies”.

11. Unfortunately, while the IFIs endorse the principle of improving social protection, country-level programmes are inconsistent in advocating improvements, often showing more concern with reducing the costs of social protection so as to lighten the fiscal burden or to lower taxes and thus make countries more investment-friendly. Such was the case of the latest *CAS* for Algeria (June 2003), which states that the World Bank will define “a policy reform agenda for the current insurance system (pension disability and death, health and unemployment) to reduce payroll taxes” because that the latter are judged to impair economic growth. Curiously the IMF, which usually pays less attention to social protection than its sister institution, advises the same country to move forward in “strengthening the social safety net to cushion the impact of any labour retrenchment” through privatization (*Article IV Consultation*, February 2004). Of course, one can find many examples of the IMF recommending that countries, both industrialized and developing, reduce social protection. For example the IMF’s latest *Article IV Consultation* for Germany (November 2003), a country that just carried out a substantial revision of social protection programmes, recommends that the country is already due for a second round of reductions of unemployment benefits. The IMF advises Germany to “cut support to recipients who turn down acceptable work” and to “lower benefits for the long-term unemployed below the level of social assistance”.

12. Trade unions have long been critical of the World Bank’s approach on old-age pension reform, consisting of the establishment of “three-pillar” pension systems that, in effect, placed the main emphasis for reform on the creation of a mandatory privately-managed “second pillar” and a scaling down of the publicly-managed “first pillar”. While agreeing that pension systems in many developing and transition countries needed improvement, unions have considered that the Bank’s approach placed undue emphasis on the need to reduce government costs and contribute to developing private capital markets through pension privatization, and not enough on the importance of expanding coverage and ensuring that pension reform leads to poverty reduction among the elderly. Furthermore, trade unions have criticized the fact that reforms often resulted in decreased benefits for retirees, especially women. Unions have also pointed out the fiscal pressures from pension privatization known as “transition costs”, when contributions formerly sent to public schemes are diverted to private second-pillar funds, thus leading to further pressures to reduce public pension benefits or other government programmes. In 2001, the ILO’s International Labour Conference agreed with unions that pension reforms in developing and transition countries should place their absolute priority on expansion of coverage, noting that most reforms had failed to do that.

13. A recent publication of the World Bank’s Latin America and Caribbean Region has further substantiated trade union critiques of the Bank’s approach. *Keeping the Promise of Old Age Income Security in Latin America* (November 2003) notes that the Bank has been involved in pension reforms in eleven Latin American countries since the early 1990s. The report finds that

“the coverage of social security systems has stagnated” in most of the countries that undertook reforms and that, “since increased coverage was one of the objectives of the multi-pillar reforms, it is understandable that lack of progress in this area has raised discontent”. The report furthermore reveals that in all but two of the countries where the World Bank’s model was applied, “women earn lower returns for the new systems relative to the return of men”. The Bank’s report further endorses another trade union critique concerning the exorbitant administrative fees demanded of workers who contribute to these mandatory second pillars, which exceed 20 per cent of contributions in three countries: “affiliates to Latin America’s new funded pillars with individual accounts are faced with steep commissions that reduce their accumulated balances drastically”. Problems of “fiscal sustainability” due to transition costs associated with pension privatization are also underlined in the Bank’s report. A January 2004 *Joint Staff Assessment* for Nicaragua provides a reminder that this negative impact continues to be present even in recent reforms. The *JSA* points out the “potential fiscal burden of the recently approved [...] pension reform” and invites the government to cut back on other public service expenditures: “the government will need to rationalize its expenditures to make room for the costs of pension reform”.

14. The lessons to be learned from the World Bank’s involvement in pension reforms, which began in Latin America well before other regions, call for major adjustments in the Bank’s approach in Latin America, and also in the transition countries of Europe and Asia and other regions where the Bank has provided its technical and financial support for reforms. The Bank’s mandate normally does not extend to industrialized countries, though some Bank representatives have spoken out on reforms in European Union countries. The IMF does not exercise similar restrictions and the Fund has decided to intervene in pension reform debates in industrialized countries. A November 2003 *Article IV Consultation* for Austria enunciates strong disapproval for the government’s decision to cap total benefit losses from the recently implemented pension reform at 10 per cent. The Fund’s position can be understood in the light of its further recommendation that the government must complete the reform agenda by adopting measures “to raise labour force participation, especially among the elderly”.

15. After previously rebuffing trade unions’ attempts to engage with the Bank in a serious dialogue on the flaws of its approach on pension reform, the World Bank finally agreed to host a first substantial discussion with unions on the question in May 2003. Global Unions welcomed this willingness to engage in dialogue, and we are pleased to note that a major Bank report now endorses many of our critiques and recommendations.

16. We agree that the World Bank should shift its emphasis towards improvement of the public pension scheme so as to build a robust first pillar, instead of emphasizing the establishment of mandatory private schemes; and, where the latter exist, must work to reduce the exorbitant administrative fees charged to contributors. The Bank must put a priority on achieving increased coverage and ensuring that women are not less equitably treated than men by these reforms, recognizing the failures of most pension reforms it has been involved to achieve these objectives. Finally, Global Unions invite the World Bank to draft a revised policy regarding pension reform and to submit this draft for comment by the trade union movement and other interested parties.

The need to defend rather than dismantle public services

17. In recent years, spokespersons of the IFIs, and especially the World Bank, have proclaimed that they are no longer ideologically pre-disposed to the privatization of public services and

enterprises, but are willing to support restructuring and improvements under government ownership. The newly declared openness to examine alternatives to privatization has come as a consequence of a number of failed privatizations and also in light of the recognition that not enough attention had been paid to the negative consequences of privatization. Argentina's postal service, which was privatized in 1997 with the help of a World Bank loan but which subsequently collapsed into bankruptcy, is a recent example of such failed privatization. The service had to be renationalized in November 2003. While trade unions have welcomed declarations on the part of the IFIs showing receptivity to public-sector solutions, they have often encountered a far different attitude in most country-level World Bank and IMF programmes and policy advice. For example, the most recent World Bank *CAS* for Algeria (June 2003) urges an acceleration of privatization, even though it recognizes that labour shedding in preparation for privatization has "contributed to keep unemployment high" and links it to the rise in poverty incidence.

18. Similar admissions of the direct link between increased unemployment and public enterprise reform are to be found in an *Article IV Consultation* for the Czech Republic (January 2004) and a *PRGF Review* for Bangladesh (February 2004), but in both cases the IMF nevertheless urges the government to push ahead with the privatization and restructuring agenda. Despite the Fund's claim that through "streamlining of conditionality" it is phasing out privatization conditions, several IMF lending agreements continue to include them. An example of this is the November 2003 *PRGF Request* for Nepal, which indicates that the government will be required to liquidate, privatize, or prepare for liquidation nine State-owned enterprises in the first seven months of 2004 if it wishes to receive a PRGF loan. In Colombia, a Fiscal and Institutional Structural Adjustment Loan approved by the World Bank in March 2003 was contingent on the adoption of a law granting the executive special powers to decree administrative reforms, which the government promptly used to dismiss 5,000 employees of the State-owned telecom service.

19. Overwhelming public opposition to privatization or the granting of private sector concessions does not seem to slow down the IMF's enthusiasm for such projects, no matter how well founded may be the opposing arguments. A November 2003 *Stand-By Arrangement Review* for Peru urges the government "to renew efforts to grant operating concessions for public works and pursue privatization", in spite of the major social upheavals and ministerial resignations that previous failed privatization projects have resulted in over the past two years. A similar publication for Bolivia advises the government that "it will be critical to move ahead with the liquefied natural gas project" even though the IMF's own analysis states that the project "will generate large current account deficits without significant effects on the growth performance of the economy, [...] generating little employment and using limited national inputs." The IMF completed its report for Bolivia in late September 2003. By the time it was published by the Fund in January 2004, the president had resigned and fled the country following protests by groups opposed to the project, who voiced arguments similar to the ones contained in the IMF report.

20. As for the World Bank, whether or not the private sector will deliver services more efficiently than the State does not seem to deter the Bank in its insistence that privatization is the only way forward. For example, the June 2003 *CAS* for Guinea notes that past efforts to involve the private sector in provision of water and electricity "led to reversals in performance of the water and electricity service". The report further notes that "access to drinking water has improved" since the government restored public management of the water utility, but, despite this, the *CAS* indicates that the granting of private concessions in these two utilities will be made a loan condition. A media report on a recent World Bank conference on private concessions for the construction and operation of infrastructure projects in Central and Eastern Europe (*Financial Times*, 1 March 2004) quotes government representatives from the countries in the region as stating that private investors require government revenue guarantees before agreeing to get

involved, thus nullifying the usual Bank argument that the private sector assumes investment risks in the place of the government. A World Bank vice-president is further quoted as stating that “there have been more failures than successes so far” with private concessions in the region, but there is no indication that the Bank will cease encouraging such concessions.

21. Global Unions consider that neither the IMF nor the World Bank have yet followed through on promises to take a less ideological approach towards privatization of public services and enterprises. Unions have been willing to take a pragmatic approach towards privatization and have, in a number of countries, agreed with private-sector participation in several State-owned enterprises. The same pragmatic attitude is often not present among country-level representatives of the IFIs who design the loan conditions. Also, contrary to promises made by the IFIs, trade unions that represent workers in these services are frequently not consulted before the decision to undertake privatization is made.

22. In such crucial services as education, healthcare, water and power, there is ample evidence to show that privatization has led to increased cost and diminished access, especially for low-income people, and to a deterioration of employment and in working conditions. Before imposing privatization as a lending conditionality, the IFIs should be required to demonstrate, through transparent assessments that can be subsequently monitored, that privatization will lead to superior development outcomes as compared to public-sector solutions. **Global Unions will continue to argue for a strong public sector presence in these vital services and to defend the interests of workers adversely affected by privatization. The World Bank and IMF should carry through with commitments to give the same attention to funding of improvement and modernization of services under public control as under private control, and that workers affected by privatization and restructuring are properly consulted.**

PRSPs must reflect concerns about job creation and labour conditions

23. Since shortly after the Poverty Reduction Strategy Papers (PRSP) process was introduced by the IFIs in 1999, the ICFTU and other components of Global Unions have encouraged affiliates to take part in PRSP preparations in their country. However in a number of countries, trade unions were initially not invited to take part in PRSP consultations or encountered other obstacles to participation, such that the ICFTU and affiliates raised several complaints about the exclusion of trade unions to governments and the IFIs. This has led to improvements in access for trade unions, and they have subsequently taken part in civil society consultations in many countries. The World Bank has documented both trade union efforts to participate in PRSPs and the impact of their participation in an extensive research paper covering 23 PRSP countries (*Trade Union Participation in the PRSP Process*, March 2004). The *PRSP Progress in Implementation* report submitted to the September 2003 IFI annual meetings also noted the increased participation of unions.

24. Although there have been improvements in the possibility for trade union to participate in the consultation process, most endorsed PRSPs do not reflect even partially trade unions’ main concerns on the subject of poverty, such as the need to define employment targets, respond to situations of inadequate wages and working conditions, and deal with lack enforcement of labour laws, including the core labour standards. On the other hand, PRSPs often include policy recommendations that unions and other civil society organizations in the country oppose, such as rapid privatization of State-run services. Such discrepancies, in what are ostensibly supposed to be “country-owned” documents built on consensus, can be explained by the fact that it is ultimately the government, generally the finance ministry, which decides what goes into the

document. Social and labour ministries often play only a minor role, if at all. Governments frequently include structural adjustment policies in final PRSPs even when they are widely unpopular, perhaps in the belief that the IFIs are more likely to provide financial support of a PRSP that includes them or that their inclusion bestows some kind of legitimacy on unpopular policies. Conversely, widespread concerns such as labour issues are frequently absent from the final document, despite the crucial role they may play in effective poverty reduction. The significant result of such misuse of the process is that it seriously undermines the credibility of the PRSP process in the country. Unions or other civil society organizations that invest time and resources in consultations for the PRSP only to see their positions ignored are likely to question the usefulness of remaining involved in the process.

25. The credibility of the PRSP process is further undermined when IFI lending conditions contradict and prevent implementation of measures included in the PRSP. Often this occurs when fiscal benchmarks are included as PRGF loan conditions, such that the government is forced to restrain poverty-reducing expenditures on penalty of having all IFI lending suspended. For example, in a December 2003 *PRGF Review* for Cape Verde, the IMF warns that, unless they obtain additional grants from donor agencies, “the authorities will need to slow the pace of hiring new teachers and doctors” as provided for in the Interim PRSP in order to meet the Millennium Development Goals. In February 2004, Zambia’s minister of education informed the media that IMF and World Bank conditionality in the form of a public sector wage-bill cap would prevent his country from hiring additional teachers and thus attaining the MDG goal of universal primary education, which was included in the PRSP. A number of reports produced by the IFIs and other organizations have highlighted the fact that key structural reform and macroeconomic policy issues are not sufficiently opened up to public debate, and that PRSPs do not examine alternative approaches. As was stated in the IMF/World Bank’s September 2003 *PRSP Progress in Implementation* report, “few PRSPs probe macroeconomic trade-offs and how such choices relate to the country’s broader growth”.

26. Both because civil society recommendations are not sufficiently taken into account and because PRSPs are often circumvented by IFI loan conditions, there is a serious risk that the whole process will continue to lose credibility. If the unique features that were supposed to characterize the PRSP process – country ownership and civil society participation – are not seen to be PRSPs’ defining attributes within countries, the entire process loses its fundamental purpose. This will especially be the case if trade unions and other civil society organizations decide to stop participating because proposals such as employment targets and labour standards issues continue to be ignored in PRSPs.

27. The IMF and World Bank should encourage borrowing governments to develop policy options within PRSPs that truly reflect national priorities, including employment creation strategies, rather than standard Washington Consensus-style policy prescriptions. It should be clearly indicated that the primary objective of involving civil society, including trade unions, in PRSP formulation should be to enhance the policy proposals put forward in the PRSP, not to attempt to fabricate an illusion of consensus in favour of pre-determined policies. Resources should be made available as part of the PRSP process for unions and other organizations to prepare detailed policy alternatives to submit during the PRSP formulation process. Finally, the IFIs must ensure that their loan conditions do not prevent the implementation of poverty-reduction measures as defined in the PRSP.

Expand debt relief programmes

28. Global Unions joined with many other organizations in the 1990s to support the Jubilee 2000 campaign. When the IFIs announced the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in 1999, unions recognized the important step that the IFIs had taken in endorsing the belief that debt relief was essential to allowing any prospect for economic development in low-income indebted countries. However they also criticized the limitations of the HIPC programme. In trade unions' view, the debt relief package did not apply to enough countries, did not provide enough debt reduction to those to which it did apply, and included too many structural adjustment conditions. Numerous IFI progress reports have confirmed our initial apprehensions. According to the *HIPC Status of Implementation* report submitted to the September 2003 annual meetings of the IFIs, only eight of the original 38 HIPCs had reached their "completion point" for receiving all of the relief provided by the programme. Of the other 19 countries that had reached their "decision point" as a first stage for obtaining relief, the report predicted that the debt levels of at least seven of these would remain above the threshold the IFIs consider sustainable even after reaching their completion point. Some of the countries that have already reached the completion point also remain with debt levels defined by the IFIs as unsustainable after having fully benefited from the programme.

29. Global Unions and other organizations have argued since the time that the HIPC programme was announced in 1999 that the assistance offered was insufficient and that more substantial debt relief should be carried out. Representatives of the IFIs and some donor countries have replied that the international community had already reached the limits of the resources that they could allocate to debt relief. Additional assistance was impossible. Such pleas of insolvency sound very hollow in light of the unprecedented commitments to debt relief that creditor countries recently consented to Iraq in the matter of a few months. The World Bank's president, who took part in the campaign to request that countries forgive their Iraqi debt, estimated recently that \$80 to \$90 billion of the debt would be forgiven. If confirmed, this amount is almost three times as large as the total amount that the international community will have provided through both the original and enhanced HIPC programmes, originally launched in 1996, once it is fully implemented for the 27 approved countries: \$31.4 billion in net present value terms.

30. The example of the first HIPC to reach completion, Uganda, demonstrates both how the amount of relief granted is insufficient and how the structural conditions for obtaining relief do not provide the basis for achieving sustainable poverty-reducing growth. Uganda's debt-to-exports ratio has increased steadily since the completion point in 2000, reaching 235 per cent in 2002/03. Although the IFIs are projecting a decline in coming years, it will remain over the 150 per cent mark that they define as sustainable for at least the next ten years. Uganda has been held up as a model by the IFIs because of the government's willingness to implement the structural changes recommended by the IFIs. For example, a February 2004 IMF *PRGF Review* states that "the authorities are to be commended for their steadfast implementation of macroeconomic policies" recommended by the IMF, and praises the government for the fact that four-fifths of the State-owned enterprises in existence ten years ago have now been privatized. Yet after noting that the government has diligently followed the IFIs' prescriptions for several years, the Fund admits that Uganda is still far from having put itself on the path of poverty-reducing growth. According to the IMF report: "The incidence of poverty increased in recent years (from 34 per cent of the population in 1999/2000 to 38 per cent in 2002/03). Income inequality has also increased."

31. It has become abundantly clear that substantial additional resources must be allocated towards debt relief for low-income indebted countries. Global Unions maintain that the level of debt relief provided by the HIPC programme must be increased, the number of

eligible countries must expand, and structural adjustment conditionality that may hamper the achievement of MDGs must not be part of debt relief requirements. The IMF and World Bank must also examine other policy options, such as the proposed International Financial Facility and International Fund to Fight Poverty and Hunger, in order to channel more financial resources towards developing countries.

32. The IFIs have also failed to adequately respond to another type of debt crisis, notably when so-called emerging countries under a heavy debt load find themselves in a default situation, as was the case with Argentina in January 2002 after a four-year-long recession set off by IMF-sanctioned macroeconomic policies. In spite of a lengthy debate about a Sovereign Debt Restructuring Mechanism, which would allow countries like Argentina to avoid “messy defaults” and arrive at a negotiated resolution, no such mechanism has been put in place. A number of private financial institutions are even pushing for the IMF to cut off its own lending to Argentina in order to force the government to make a more generous offer to private creditors. **The continuing crisis surrounding Argentina’s debt demonstrates how imperative it is to create a framework for a fair and transparent international debt arbitration and restructuring mechanism.**

Reduce instability through international financial reform

33. Even though IFI forecasters have announced a return to global economic growth after the 2001 downturn, major factors of instability and downward pressure on global economic activity remain. The IMF has recently identified the world’s strongest economy, that of the United States of America, as one of the major factors of instability (*US Fiscal Policies and Priorities for Long-Run Sustainability*, January 2004). According to the IMF, the government’s policy of introducing tax cuts combined with increased military spending carry the risk of pushing up global interest rates, which “would mean that the adverse effects of US fiscal deficits would spill over into global investment and output”. The report also warns of the “unprecedented level of external debt” in the US, which will continue to put pressure on the dollar and possibly lead to a “disorderly exchange rate adjustment” that would wreak havoc on financial markets. Although new threats to international financial stability are coming into view almost seven years after the start of the East Asian crisis, international institutions are no better prepared to prevent such crises or mitigate their consequences.

34. The one new mechanism that was put in place in the wake of the East Asian crisis, the Contingent Credit Line, was allowed to expire in late 2003 without a single country ever having applied for it because of the overly stringent pre-approval criteria. No other more effective mechanism has been put in its place. There is still no regular process of coordination of major currencies, except on an ad hoc basis. While the IMF appears to have ceased pressuring developing countries to remove national controls on destabilizing international capital movements, it has never encouraged countries to put them in place, nor has it endorsed the idea of a currency transactions tax (or Tobin tax), which could discourage purely speculative movements.

35. An international debt restructuring mechanism, a less restrictive form of contingent credit facility, closer coordination of major currencies, measures such as capital controls and the Tobin tax to limit speculative capital movements, and increased international banking transparency are among the instruments needed to prevent or control the spread of international financial crises.

Conclusion

36. Both the IMF and World Bank have given much emphasis in recent years to the need for governments to act in a transparent and accountable manner if they are to effectively foster the development of their countries. Both institutions have also taken measures to make their own operations more transparent. However the processes for designating those assuming the highest responsibilities within the IFIs have not followed suit, as is demonstrated by the complete lack of transparency as to the method for choosing a new managing director of the IMF. Furthermore, it is not acceptable that these positions be regarded, in accordance with unwritten rules established six decades ago, as the exclusive domain of one country or region, and that candidates from all developing and transition countries are not considered. **Global Unions believe that a transparent and democratic process must be put in place for the designation of those holding top management positions in the IFIs.**

37. The policy recommendations presented in this statement call for a number of important changes in the way that the IMF and World Bank operate. Global Unions believe that the IFIs can respond more quickly and effectively to the need for change by engaging in more frequent and in-depth exchanges with trade unions, especially when their interventions have an impact on labour, as a great many do. While the number of meetings involving unions has increased, unions are by no means consulted in all cases where IFI policies directly affect workers, nor do the IFIs respond to many of the concerns unions raise. The recently released report of the World Commission on the Social Dimension of Globalization (February 2004) notes that “trade unions have devoted considerable resources to promoting greater consistency and cooperation between the multilateral organizations responsible for economic development, trade and social policy”. The commission recommends that “formal consultation structures similar to the OECD type should be established at the World Bank, the IMF and the WTO”.

38. The IFIs should engage in consultations with trade unions on all labour-related issues and take account of the results of these meetings when designing loans or formulating country-level policy advice. These meetings should take place internationally, when the IFIs formulate overall policies; regionally in order to have a regional perspective on their policies; on the country-level when they design development strategies, loans or policy advice; and on the firm or sector level when they are engaged in projects or structural reforms. In addition, the IFIs should follow the recommendations of the World Commission on the Social Dimension of Globalization and the G8 Labour and Employment Ministers’ Conference (Stuttgart, 14-16 December 2003), which both called for inter-institutional dialogue and policy coherence initiatives involving the IMF, World Bank, WTO, ILO and other relevant UN bodies. Achievement of the Millennium Development Goals will require more wide-ranging and systematic cooperation by all of the world’s international institutions and social forces.

PB – 19-03-04