IFI POLICIES FOR EQUITABLE AND SUSTAINABLE ECONOMIES

Statement by Global Unions to the 2017 Annual Meetings of the IMF and World Bank Washington, 13-15 October 2017

Introduction

1. Global economic growth has shown a slight recent improvement compared to 2016, but working people in many regions continue to experience high unemployment and under-employment, and wage stagnation. Global Unions[1] urge the international financial institutions to focus on creating quality jobs, expanding universal social protection, achieving the transition to a low-carbon future and reducing inequality. The trade union movement is concerned by the growth of right-wing nationalism in many countries, due in part to a lack of confidence in the global economic system. The IFIs should join those calling for fairer rules in international trade and investment agreements, not push for liberalization that further strengthens investors' rights at the expense of everyone else.

2. Global Unions' statement puts forward detailed recommendations for actions by the IFIs to restore labour's share of national income and reduce income and wealth inequality, make progress on gender equality and achieve a just transition to a sustainable economy. The statement criticises the World Bank's misplaced promotion of public private partnerships in developing countries and urges the IMF to change its policy of favouring narrowly targeted social safety nets rather than universal social protection. It also contains recommendations for ensuring the effective and comprehensive application of the World Bank's new labour standards lending requirement, scheduled to begin in 2018.

Stagnant wages, continued high unemployment and under-employment

3. In mid-year updates to their global economic forecasts, both the IMF and World Bank predicted slightly higher growth for 2017 and 2018 compared to 2016, which had the lowest rate of global growth since the Great Recession year 2009. However, the "firming recovery" forecast by the IMF remains highly uneven. After a decade of austerity-induced recession and slow growth, the euro area is not predicted to break through the 2 per cent annual growth ceiling in 2017 and 2018, and the rate of increase in the United Kingdom

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 181 million members in 163 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, IFJ, IndustriALL, ITF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

will be even lower. The growth forecast for the United States has been adjusted downwards to 2.1 per cent in both years due to uncertainty about policy directions there.

4. In emerging and developing economies, the portrait is highly uneven, despite an overall improvement this year from 2016. The IMF predicts that Latin America and the Caribbean will attain only 1.0 per cent growth in 2017. Growth rates in Sub-Saharan Africa and emerging and developing Asia will be at their lowest levels since the 1990s, with the exception of the 2016 downturn.

5. Even with slightly higher growth in 2017, the situation of working people will not improve significantly. Workers in many regions continue to experience high unemployment and under-employment and stagnant or declining real wages. Reports published by the International Labour Organization identify a steady deceleration of wage growth since 2012 in developing and emerging countries, and forecast a modest increase in the global unemployment rate in 2017 due to a deterioration in emerging economies (*Global Wage Report 2016/17; World Employment and Social Outlook – Trends 2017*). The ILO further estimates that there will be only slight improvements for those at the bottom of the income scale in 2017. Close to 43 per cent of workers worldwide will remain in a situation of vulnerable employment and almost 29 per cent in "working poverty". The fair and effective integration of migrants and refugees into labour markets is also a key concern, as these populations are often vulnerable to unemployment, low quality jobs and social exclusion.

6. Recent IFI forecasts note that political developments over the past eighteen months will further complicate attainment of a sustainable growth path for the global economy. The rise of right-wing nationalism in several countries is of great concern to trade unions around the world, but the response of policymakers should not be to ignore the growing lack of confidence in the global economic system. For years, some international institutions including the IFIs have shrugged off the adjustment costs from trade liberalization and the losses suffered by a significant number of working people from trade and investment agreements. Intensifying trade liberalization and increasing the power of private capital over local communities and workers is not the way forward.

7. The IMF and World Bank should endorse a rebalancing of investors' rights and obligations in trade and investment agreements by supporting the inclusion of enforceable labour provisions based on ILO standards, as well as the repeal of investor-state dispute settlement mechanisms that undermine governments' right to regulate. To respond to the global lack of aggregate demand, growing inequality and the challenge of climate change, Global Unions urge the IFIs to support an extensive programme of public investment in energy efficient infrastructure and quality public services, and coordinated wage increases.

IFI operations must catch up to rhetoric against inequality

8. The IFIs' increased attention to the negative impacts of income and wealth inequality and its causes is a welcome development. The World Bank has emphasized that measures to make income distribution more equal are a necessary condition for attainment of Sustainable Development Goal 1.1 on eradicating extreme poverty, as well as SDG 10.1 on boosting the bottom 40 per cent (*Poverty and Shared Prosperity*, October

2016). The IMF has published several research papers showing that countries with lower inequality have higher and more durable growth; that fiscal policies have become less redistributive in most countries; and that weaker labour market regulations and institutions, reflected in declining trade union density and collective bargaining coverage, are the main drivers of increased inequality in many countries.

9. However, action in lending programmes or country-level policy advice has been slow to catch up to the IFIs' research and discourse on the need to reduce inequality. Many IMF programmes or policy recommendations continue to support measures that weaken minimum wages, employment protection regulations or collective bargaining institutions. For example, the Fund has encouraged many countries to substantially weaken or dismantle national or sector-level collective bargaining, despite the role that coordinated collective bargaining systems have played in achieving more equal income distribution. In February 2017, the UN's Independent Expert on the effects of foreign debt and other related international financial obligations submitted a report to the Human Rights Council, which documented numerous cases of the IMF promoting austerity-related labour market reforms that erode workers' rights.[2] The report found little evidence that the deregulatory measures, put forward on the pretext of preventing or resolving debt crisis, contributed to economic recovery; but they did contribute to increased inequality.

10. Despite the contributions that coordinated or centralized bargaining can make to reducing inequality, the IMF's hostility to collective bargaining beyond the firm level was confirmed in the new programme for Greece, where the Fund re-engaged as a lender in July 2017 after a three-year hiatus. Along with approval in principle of a new loan, Fund management announced its opposition to the government's expressed intention to restore sector-level bargaining after the end of the programme in August 2018. Sector-wide extensions of collective agreements were suspended in 2011 by a previous government, acting under IMF pressure, with the result that collective bargaining coverage collapsed from an estimated level of 70 per cent before the crisis in 2007 to 10 per cent in 2015, according to ILO analyses.[3] Reduced minimum wages and pension cuts also contributed to a more unequal distribution of income. Last October's World Bank report, *Poverty and Shared Prosperity*, found that between 2008 and 2013 Greece had the worst performance of any of the countries examined as measured by the income decline of the bottom 40 per cent.

11. Progress on income and wealth inequality is intertwined with gender equality, and gains can be mutually reinforcing. Overcoming the gender wage gap will aid in reducing income inequality, but a coordinated policy intervention based on the decent work agenda is needed. On its own, job creation can perpetuate gender inequality when women face occupational segregation in low-wage sectors dominated by precarious jobs and continue to bear the burden of unpaid work. Skills training and education are important to reduce occupational segregation, but policies must also address the issues of low wages,

[2] United Nations Human Rights Council, A/HRC/34/57, 27 December 2016 (http://ap.ohchr.org/documents/dpage_e.aspx?si=A/HRC/34/57)
[3] International Labour Organization*, Evaluating the effects of the structural labour market reforms on collective bargaining in Greece,* December 2016 (http://www.ilo.org/travail/whatwedo/publications/WCMS_538161/lang--en/index.htm)

precarious work, the informal economy and unpaid labour. This can be accomplished through fundamental rights at work, social protection and social dialogue. The IMF has commendably begun to examine economic and gender inequality, but more action is needed to mainstream these topics by examining how overall policy advice and loan conditions affect both forms of inequality. Conditionality on fiscal consolidation and public sector wage suppression is of particular relevance. At the World Bank, a broader gender strategy is needed that looks beyond entrepreneurship, private sector growth and education. A holistic approach would challenge economy-wide structural problems of low wages and wage gaps, occupational segregation and informality.

Making progress toward universal social protection

12. IFI policy advice or loan conditions in the area of social policy have also had troubling impacts on inequality. Some IMF programmes include a "social spending floor" as a Quantitative Indicative Target, but these are purely symbolic since a failure to meet minimum spending targets has no effect on loan disbursements. A recent report from the Fund's Independent Evaluation Office (IEO, *The IMF and Social Protection*, July 2017), found that the main object of IMF involvement in social programme reforms has been to control their fiscal cost, not to improve their adequacy or coverage. In many countries, the Fund has supported narrow targeting of social benefits, for example by replacing universal allowances or consumer subsidies with benefits targeted to certain groups. The proxy means test mechanisms often used for targeting typically exclude 50 per cent or more of those that should be eligible by virtue of income level, according to research published by the ILO. Social protection reforms promoted by the IFIs that leave a high proportion of low-income people without any assistance are incompatible with inequality reduction and shared prosperity goals.

13. The negative impact of such policies has been felt in borrowing countries. In Tunisia, which began the first of two recent IMF loan programmes in 2013, social expenditures at the end of the first programme were 14 per cent below the social spending floor in the lending agreement. A staff report blamed the discrepancy on "issues in delivery mechanisms" for the "well-targeted social safety net" that was supposed to mitigate the impact of increased energy prices on low-income people. In a loan to Mongolia approved in May 2017, the IMF insisted on "better targeting" of the national child cash benefit that replaced the previously universal benefit. According to an analysis by two UN agencies, the universal programme was particularly effective in reducing poverty among Mongolia's rural families, many of whom had not received benefits from an earlier selective scheme due to "exclusion errors associated with proxy means testing".[4]

14. The IEO report confirms that the IMF's approach of favouring targeted versus universal social protection places it at odds with the ILO, other UN agencies and the World Bank, and questions whether the Fund's approach is compatible with its support for the Sustainable Development Goals. For its part, in 2016 the Bank launched a joint programme with the ILO for increasing the number of countries with universal protection, an initiative it took in conformity with its endorsement of the SDGs, specifically target 1.3

[4] Global Partnership to Achieve Universal Social Protection, "The Universal Child Money Programme in Mongolia", 2016 (http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53942)

on social protection for all. The Bank, which has been involved in several problematic targeting schemes, should ensure that henceforth its programmes deliver on the promise of protection for all by helping establish comprehensive systems based, for example, on the social protection floor concept developed at the ILO. The IMF should also support this approach, following up on earlier country-level research work it was involved in for identifying fiscal space for social protection floors.

Support country capacity building, not risky public-private partnerships

15. Despite growing evidence of the negative consequences of public-private partnerships, the World Bank continues to promote the approach. The resources devoted to the advancement of PPPs should be redirected toward productive public investment and improvements in administrative capacity. PPPs and other methods on the continuum of privatization have reduced affordable access to services, saddled governments with long-term costs and converted basic needs into private profit. In Latin America, the revelations of bribery by Brazilian builder Odebrecht show that PPPs can also be a breeding ground for corruption. In 2014 and 2015, the World Bank's International Finance Corporation took a 15% equity stake and provided $61.3 million to TCQ, a subsidiary of maritime giant TCB created to administer a port in Guatemala as a PPP. It was revealed that the company promised millions of dollars in bribes to obtain the contract, including alleged payments to the former president and vice president of Guatemala.

16. The Bank's 2016 update on private participation in infrastructure (PPI) shows a decline on several fronts. The update compares the numbers for 2016 to the average from 2011 to 2015: investment commitment was 41 per cent less and the number of PPI projects was 57 per cent lower. Only five emerging and developing economies accounted for 69 per cent of the investment commitments, which included $4.3 billion for a coal-fired power plant in Indonesia, designed with IFC support. Despite the recent decline, the percentage of PPI projects supported by multilateral development banks remained the same, due in large part to the leadership of the World Bank at the Global Infrastructure Connectivity Alliance and other venues, and the priority the Bank has given to promoting PPPs. Their use is particularly damaging in basic public services including education, health and water. Even low user fees can eliminate access for the extreme poor and harm human development. Quality has also been shown to suffer, as in the case of for-profit Bridge International Academies, which benefits from IFC equity financing.

17. The true overall cost of a PPP is often left off government balance sheets, posing a fundamental problem of lack of transparency, and many contracts provide guaranteed income to the private entity in the event of contingent liabilities. Renegotiation of PPP contracts is common, resulting in unplanned additional costs that lead to a long-term drain on public finances and hamper poverty reduction. The fiscal risks of PPPs have been highlighted by the IMF and sometimes acknowledged by the World Bank. However, Bank tools do not provide clear guidance to place costs on-balance sheet and conduct a full comparison with public options prior to choosing a PPP.

18. The negotiation and management of PPPs by governments require an extensive investment of time and resources. This strains public-sector administrative capacity even in developed countries, and is worsened in low-income countries where powerful multinational enterprises use a power and knowledge imbalance to outmanoeuvre

governments. Instead of promoting PPPs that generate profits for fleet-footed multinationals, the World Bank should refocus on helping build domestic expertise in physical and social infrastructure that promotes development.

Maintain commitment to climate action

19. The withdrawal of the United States from the Paris climate agreement was a step backward, but does not remove the responsibility and commitment of the rest of the world to address this grave threat to our planet. The IFIs should take a strong leadership role and deliver unwavering support to the Paris agreement signatories for reaching their commitments. This includes full implementation of the World Bank Climate Change Action Plan for 2016-2020, designed to assist countries in reaching their Paris pledges, and robust IMF support for carbon taxation.

20. A World Bank statement in June reaffirming its commitment to climate action was welcome and should be thoroughly reflected in operations. The six focus areas of its Action Plan – including renewable energy, leaving no one behind and sustainability in cities and mobility – are a strong framework to support countries in meeting their Paris commitments. Global Unions encourage the Bank to promote a just transition for workers affected by the projects and policy planning that will occur under the Action Plan. From workers in fossil fuel industries to informal bus drivers, these groups should have a voice and a place in the sustainable economy of the future.

21. Expanded access to energy and the growth of clean energy production can be achieved jointly. IFI support for new fossil fuel projects renders a disservice to the poor and working people, who stand to lose the most from the impacts of climate change. Unfortunately, evidence shows that some development policy lending (DPL) from the World Bank is linked to fossil fuel projects. Global Unions support the important work conducted by the Bank in promoting renewable energy, and urge the extension of the new Environmental and Social Framework to DPL in order to ensure that sustainability is promoted in all aspects of lending. Stronger monitoring of social and environmental responsibility among financial intermediaries in the private sector will also improve the advancement of renewables.

22. Fiscal space and planning is crucial to climate change mitigation and a just transition. The IMF can contribute to this work and help design solutions including carbon taxation, an approach that should move swiftly from theory to action. IMF and World Bank participation in the Carbon Pricing Leadership Coalition is productive and should continue. The High-Level Commission on Carbon Prices concluded that pricing revenue “can be used to foster growth in an equitable way, by returning the revenue as household rebates, supporting poorer sections of the population, managing transitional changes, investing in low-carbon infrastructure and fostering technological change”. Universal social protection will also be key to building resilience to the effects of climate change. The road to the Paris agreement was a difficult one, but international cooperation prevailed. The IFIs must persevere in assisting member-country governments to meet climate change challenges.

Cooperation for implementing World Bank's new labour safeguard

23. If the World Bank's announced plans are respected, in 2018 it will join several other multilateral development banks (MDBs) that, over the past several years, have implemented comprehensive labour standard lending requirements or safeguards. "Environmental and Social Standard 2: Labour and Working Conditions" (ESS 2) is part of the Bank's new *Environmental and Social Framework* (ESF), adopted in August 2016. ESS 2 provides for basic occupational health and safety requirements, obligations to provide information to workers and a requirement to respect certain fundamental workers' rights.

24. The World Bank's introduction of a labour safeguard is an important development, but the effectiveness may be impaired by the fact that in some aspects its version is weaker than those of other MDBs, such as the lack of reference to conventions of the International Labour Organization. In order to avoid that weaknesses or ambiguities in ESS 2 lead to tolerance of unacceptable labour practices or denial of workers' rights in Bank-financed activities, it will be imperative that the Bank cooperates fully with parties knowledgeable about the labour conditions in its projects and programmes, notably the ILO and trade unions.

25. One promising area of cooperation is in implementation of the provisions of ESS 2 that relate to primary supply workers, which require that borrowers take action to ensure the absence of forced labour, child labour and serious safety issues in their supply chains. The ILO held a major discussion at its 2016 annual conference on promoting decent work in global supply chains, and has specifically called for partnerships with the IFIs for making headway.

26. The Bank should move forward in cooperation with unions and the ILO as it develops staff directives, training material, monitoring mechanisms and consultation procedures for implementing ESS 2. The Bank should also examine possibilities of working jointly with other MDBs that have had years of prior experience in implementing labour safeguards. Joint work could take place, for example, in training of staff and project managers on labour standards requirements, and in establishing effective monitoring and information-gathering procedures to identify risks of safeguards violation.

27. A next stage for making progress in assuring that all World Bank Group-financed activities are socially and environmentally sustainable is to extend application of safeguards to those investments where the ESF or IFC's Performance Standards either do not apply or the WBG assumes limited responsibility for validating compliance. Our concern is particularly for DPL contracted by the Bank's public-sector arms (IBRD and IDA) and activities financed by IFC through private financial intermediaries. Although the latter are, theoretically, supposed to ensure that the end projects are in conformity with the Performance Standards, in practice IFC has no system for monitoring compliance or responding to complaints about non-compliance.

Global Unions' recommendations

Measures to support shared prosperity and decent work

28. The IMF and World Bank should

- Support efforts to reverse rising income inequality and recover lost labour share of national income through coordinated wage increases and public investment. End the promotion of labour market deregulation and wage suppression, including through funding conditionality. Instead, help strengthen social dialogue, collective bargaining and labour market institutions. Wage increases and investment in public services, particularly the care economy, will drive women's economic empowerment.

- Contribute to public investments in quality public services and sustainable infrastructure. The IFIs should help countries build public administrative capacity and avoid public-private partnerships that create a long-term burden on public finances and undermine access to basic services.

- Ensure that all operations contribute to inequality reduction by examining how policy advice, lending and conditionality will affect economic and gender inequality. The issue of inequality should not be treated as a new standalone topic, but rather as a crucial issue that is affected by a range of IFI actions.

- Help countries design fiscal policies that reduce inequality through more progressive tax regimes and that promote the realization of universal social protection.

- Uphold the Paris climate agreement by providing advice and financing that will enable countries to fully meet their pledged reductions in emissions and enable a just transition to a sustainable economy. Focus on renewable energy and sustainability, refusing new fossil fuel projects that will worsen climate change.

- Develop actions that contribute to attainment of the Sustainable Development Goals, which include targets on full and productive employment, protection of workers' rights, reduction of inequality, universal health coverage, universal primary and secondary education and national social protection systems for all.

- Support the inclusion in trade and investment agreements of enforceable labour provisions based on ILO standards and the repeal of investor-state dispute settlement mechanisms that undermine governments' right to regulate.

29. The World Bank should

- Ensure that its projects and programmes respect fundamental workers' rights and provide safe working conditions and adequate wages. Work jointly with trade unions and the ILO in the implementation of "Environmental and Social Standard 2: Labour and Working Conditions" to ensure that Bank-financed activities are in full comformity with recognized international labour standards, including in identifying projects with high risk of non-compliance and in monitoring compliance.

- Examine possibilities of joint work with other development banks that have adopted labour safeguards on their implementation, for example in training activities and developing effective monitoring procedures.

- As a further step, ensure that the labour safeguard applies and compliance is monitored in all activities financed by the World Bank Group, including through Development Policy Lending and Programme-for-Results, and projects funded by IFC through financial intermediaries.

Measures for effective financial regulation and taxation

30. The IMF should

- Support the extension and completion, and reject any rollback, of steps taken since 2008 to correct under-regulation of the financial sector, such as shadow banking systems, too-big-to-fail financial groups and under-taxation of the financial industry.

- Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debt.

- Promote stronger actions to counter the erosion of tax bases and achieve reform of taxation systems in order to move toward broader-based and more progressive taxes, and to shift taxation from employment to environmentally damaging and non-productive activities, including carbon taxes.

- Support stronger measures to ensure that fiscal revenue is not lost through tax havens by requiring automatic exchange of information and action to stop base erosion and profit shifting by multinational enterprises.

- Support the introduction of financial transactions taxes to discourage speculative behaviour and create new sources of finance.

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