The road to sustainable recovery: IFI policies to create quality jobs, boost public services, and reduce inequality

Statement by Global Unions to the Spring Meetings of the IMF and World Bank
April 2021

Introduction

1. Progress on vaccines and a strong overall response to the crisis have improved the growth outlook for 2021. However, the crisis is not over. Despite the projected rebound, the International Monetary Fund (IMF) predicts GDP per capita in 2021 will remain below 2019 levels in over 150 countries. More than 250 million full-time equivalent jobs have been lost, and the International Labour Organizations forecasts 2021 employment significantly below pre-pandemic levels.[1] The world cannot afford another recovery in which employment lags, the real economy struggles with a lack of productive investment, and multilateralism deteriorates. The creation of quality jobs should be the measure of recovery and guide IMF and World Bank operations. An enabling environment for recovery requires universal social protection, quality public services including health and education, just transition plans, public investment, and balanced labour regulations.

2. In this statement, Global Unions[2] recommend specific policy changes to improve the operations of the International Financial Institutions (IFIs). The Bank can turn the page on the blindly deregulatory Doing Business Report and strengthen implementation of its labour safeguard. The Fund can align its social spending floors with international standards and convene central banks on full employment and climate. Multilateral debt relief can be broadened alongside international tax reform. Attacks on democracy threaten inclusive growth and demand a robust response. In all these endeavours, social dialogue needs to be integrated into IFI procedures.

3. The crisis and an uneven recovery threaten an explosion of inequality between countries. While high-income countries responded to job loss with proportional stimulus, the measures taken in developing countries are far outweighed by the decline in employment. This fiscal stimulus gap must be urgently closed. It would be gravely worsened by a two-track recovery in which high-income countries are advised to continue fiscal stimulus and launch ambitious public investment while developing countries are forced to repeat the mistakes of austerity and deregulation.

4. Within countries, the toll of job and livelihood loss has exacerbated inequalities for low-wage, women, youth, migrant, and informal workers. Stronger strategies are needed to reduce inequality, including a World Bank corporate strategy and making IMF guidance on inequality a routine part of policy advice and loan programmes. The IFIs should support a Global Fund for Social protection to inject resources to rapidly develop and scale-up systems, and support governments in revenue mobilisation to establish permanent sources of funding.

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[1] IMF, World Economic Outlook Update, January 2021:
https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
ILO Monitor: COVID-19 and the world of work, seventh edition:
http://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_767028/lang--en/index.htm

[2] The Global Unions group is composed of the International Trade Union Confederation (ITUC); the sectoral Global Union Federations BWI, EI, IAEA, IFJ, IndustriALL, ITF, IUF, PSI and UNI; and the Trade Union Advisory Committee (TUAC) to the OECD.

Improve IMF social spending floors and work on inequality

5. The Fund has been an important voice in the crisis on robust response spending, public investment, and sustainable recovery. Global Unions note, however, the current divergence of policy advice between high-income and developing countries. Longer-term consequences for countries and the global economy will be serious if the IMF steers developing countries down a path of counterproductive deregulation and austerity, including cuts to public sector employment, wage suppression, reduced capital investment, and asset sales or privatisation. Further detail on these issues and expanding fiscal space can be found in the ITUC's report *Reforming the IMF for a resilient recovery*. There are two immediate steps that the Fund can take to deepen progress on policy surveillance and lending: systematising work on inequality and minimum standards for social spending floors.

6. The IMF created strong staff guidance for integrating economic and gender inequality into work with member countries. It advises that policies should be evaluated for negative effects on inequality, such as public wage bill cuts. If this is the case, alternative policy packages are to be crafted. If that is not possible, mitigating measures can be used. Uptake has been uneven, and application leans toward mitigation before alternative policies. The guidance concerns the policy advice of the Fund in country reports. However, the most significant consequences of Fund operations for inequality arise from lending. The guidance should be upgraded to a requirement for IMF country teams and be consistently applied in policy dialogue and loan programmes.

7. Social spending floors became common in loans to low-income countries after conditionality reforms in 2009 and are increasingly present in emerging country loans. The Fund's 2019 institutional view on social spending – encompassing health, education, social protection – usefully advised using firm reference points such as share of GDP, but prioritised basic social assistance in floors rather than building and protecting comprehensive systems. Many floors, recently in Angola and Honduras, are an exercise in protecting spending on some targeted social programmes while limiting broader social spending and public sector employment.

8. Consistency and efficacy should be improved through a better-defined approach that aligns IMF floors with the ILO standards on social protection floors and social security, as well as the SDGs on health and education. Public wage bills should be considered for inclusion with an eye toward reaching the adequate staff-to-population ratios needed. Fund country teams should be empowered to work with policymakers, social partners, and relevant international organisations in creating floors that meet standards and advance countries toward universal social protection, free and quality public education, and health coverage.

End the Doing Business Report

9. The Bank's Doing Business Report has repeatedly caused controversy about flawed and constantly shifting methodology or political interference, culminating in its suspension last year over possible manipulation. The ensuing investigation led to corrections, notably that Saudi Arabia would not have been the top reformer in the 2020 report with accurate data. However, it revealed little about manipulation beyond a footnote on staff concerns about governments attempting to "unduly influence" the rankings. The indications that the Bank will move forward with publishing the report after this investigation, but before an independent review panel delivers broader recommendations in June, is regrettable. Global Unions remind the Bank of its commitment in

early 2020 to cease collecting data on the employing workers indicator, already suspended since 2010, and ask for a formal notice on the website of Doing Business in addition to the data removal that has occurred.

10. As the world looks ahead to recovery and achieving the SDGs, it is time to discontinue the Doing Business Report. The report threatens to erase positive World Bank involvement on sustainable development and inclusive growth. This is illustrated by the paying taxes indicator. The Bank's Internal Evaluation Group noted in 2008 that the total tax rate measure, which includes social and labour contributions by employers, could penalise legitimate fiscal and social protection policies. It recommended measuring only administrative burden, and five years later the independent external panel provided similar advice to drop the total tax measure. The 2008 report did lead to an adjustment of the benchmark for taxes from zero to a target currently at 26.1 per cent. As international tax reform moves forward, Doing Business still promotes a race to the bottom. This is just one example of flawed approaches in the ideologically rooted report, rendering the rankings both meaningless and destructive.

Responding effectively to attacks on democracy

11. Global Unions call for a robust IFI response to the attacks on democracy and workers in Belarus and Myanmar, part of global trend stretching from Brazil to Hong Kong to Haiti. The decision of the Bank Group to freeze disbursement and project preparation, alongside "enhanced monitoring" of active projects, is welcome in Myanmar and should be replicated for Belarus. The response should include dialogue with independent trade unions and swift efforts to remediate retaliation against project workers.

12. The IMF should track use of the emergency loan disbursed to the democratically elected government of Myanmar days before the coup and the resulting change in finance ministry and central bank leadership. The money should not enrich the military in any way. The Bank Group needs further action to identify linkages to Myanmar's military-owned companies, including through suppliers, contractors and financial intermediary sub-projects. When linkages are found or rights violations occur, the IFIs should use their leverage to demand remedy, such as the release of arrested workers and protection of human rights defenders. All options are needed including demands for immediate reimbursement.

13. The elements of this approach should be formalised into a rapid response strategy, to ensure that the IFIs do not enable attacks on democracy that close the door on inclusive growth and development. Dialogue with independent trade unions is central and must be part of any decision to freeze operations. Independent unions and civil society are best able to advise on appropriate measures to protect democracy, institutions, and livelihoods, balancing the risk of enabling repression with the human consequences of removing financing. An effective response strategy is important in cases resembling Belarus and Myanmar, where repressive regimes are underpinned by sprawling economic holdings. Workers have directly confronted this through strikes. Health workers who were already on the frontlines of the pandemic started a wave of strikes against the Myanmar coup. Their action and that of unions in other sectors, led to a general strike and vast demonstrations against military rule. In Belarus, protests against the stolen election and repression continue. The brave actions of Belarussian workers, particularly at state-owned enterprises, have been crucial elements of the resistance. The role of workers in defending

democracy is a reminder of why the IFIs should promote freedom of association and collective bargaining, in addition to its economic benefits.

Redouble implementation of labour safeguards

14. The World Bank's 2020 update on implementation of the Environmental and Social Framework highlights the labour safeguard as "one of the most challenging" for staff and borrowers. Trade unions support the view of management that "stronger staffing and accountability" is needed on labour and occupational health and safety. Further training with the involvement of trade unions, including on freedom of association, would be beneficial. Improving implementation should include the compilation and publication of the occupational safety outcomes of lending, including worker fatalities and incidents.

15. Dialogue with trade unions in project design, as encouraged by the labour safeguard, has been inconsistent. Trade unions ask the Bank to collaborate on a mechanism to ensure the involvement of trade unions in project preparation and implementation. Other productive steps include jointly developing guidance for staff, borrowers, and workers, involvement of trade unions in trainings, and regular communication with the Bank's 'community of practice' that gathers staff engaged on labour and working conditions. A labour advisory group proved valuable in early implementation of the IFC safeguards. An advisory group at the Bank could undertake examination of best practices and key projects, including joint site visits as part of monitoring.

16. Global Unions are disappointed by further violations of the IFC safeguard at the Sheraton Conakry hotel and Karot Hydropower. Justice delayed is justice denied. At the Sheraton in Guinea, two elected worker representatives were fired for union activity and have not been reinstated. The climate of surveillance and threats has escalated, with management targeting workers who spoke out publicly to IFC. At Karot in Pakistan, IFC inaction over two years allowed the borrower to avoid recognising or bargaining with the independent trade union.[3] The consequences were made clear in November, when the vast majority of workers were asked to voluntarily leave or resign, with a bonus promised for compliance. Employment ended for over 2,000 workers in contradiction of the safeguard requirements on retrenchment, including consultation of workers. With collective bargaining the situation could have been handled openly and fairly, instead of the unfair chaos that prevailed.

[3] This is the subject of an ongoing complaint to the IFC's Compliance Advisor Ombudsman, alongside issues of occupational health and safety, and use of security forces: http://www.cao-ombudsman.org/cases/case_detail.aspx?id=3292

Recommendations to the International Financial Institutions

- Support coordinated economic stimulus with public investment at the forefront, emphasising sectors with benefits for workers and their communities including infrastructure, care, education, and climate-friendly industries.
- Institutionalise tripartite social dialogue and input from international organisations in the creation of loan programmes, country and sector strategies, and policy advice.
- Help finance universal social protection and quality public services through domestic revenue mobilisation, international tax reform, and a Global Fund for Social Protection.
- Reform conditionality and policy advice on labour, ending promotion of deregulatory reform, public wage bill cuts and freezes, and decentralisation of collective bargaining.
- Assist countries in reaching the defined thresholds of workers needed to meet the SDGs, ending policy advice and loan conditions that suppress the public wage bill.
- Prepare rapid response plans for attacks on democracy, including protection of project workers and enhanced dialogue with independent unions.
- Support effective application of the G20 Common Framework for debt treatments, a permanent multilateral process for negotiating debt restructuring, and create debt sustainability analyses accounting for sustainable development needs.
- Expand the IMF Catastrophe Containment and Relief Trust (CCRT) to cancel concessional repayments through April 2022 and create a similar mechanism at the Bank.

The IMF should:

- Support issuance of Special Drawing Rights commensurate with the needs of developing countries, alongside transfers by high-income countries to the CCRT and other trust funds.
- Apply guidance on economic and gender inequality to all policy advice and loan programme design, choosing alternative policy packages to avoid increasing inequality.
- Create guidelines on designing social spending floors in loans, aligned with ILO standards on social protection and the SDGs on health and education.
- Address the structural threats to recovery and stability through financial regulation, especially of non-bank financial institutions, and a financial transactions tax.
- Convene dialogue among central banks on integrating full employment and climate into frameworks and mandates, supporting the discussions with research.

The World Bank Group should:

- Systematically integrate employment into results measurement frameworks at the project and institutional level, measuring the quality and quantity of job creation.
- Verify the alignment of Development Policy Loans with relevant international labour standards.
- Fully implement the labour safeguards with swift remedy of violations, a labour advisory group, training of staff, and a mechanism for trade union involvement in project design.
- Publish annual data on worker fatalities and incidents on projects, using the information to improve outcomes. Prohibit the use of asbestos-containing materials.
- Adopt a Board-approved strategy to reduce inequality and boost shared prosperity.
- Promote tripartite just transition taskforces, aligning investments with their plans. Foster quality job creation in sectors and supply chains key to net-zero carbon emissions.