ITUC/Global Unions' Response to "Building Resilience and Opportunity: The World Bank's Social Protection and Labor Strategy 2012-2022 - Concept Note"

Introduction

The World Bank's decision to engage in external consultations for its new Social Protection and Labour Strategy, which it intends to adopt in 2012, is a positive development and differs substantially from the closed process that led to the adoption of the Bank's current social protection strategy launched in 2001. When trade union organizations subsequently confronted the Bank with their apprehensions about the negative impacts of an important section of the 2001 strategy concerning pension reform, the Bank's social protection department told an international trade union delegation that workers' organizations had "nothing useful to contribute" to the issue. The Bank's request to meet with the International Trade Union Confederation (ITUC) in January 2011 at the start of consultations on the Concept Note for the new SP&L strategy is a welcome contrast.

Unfortunately, the willingness to listen to the views of workers' organizations does not extend to the external Advisory Group that the Bank created to advise on the formulation of the new strategy. The Advisory Group was to have included members of civil society, according to the Bank's terms of reference, but the group's composition announced in mid-March in fact excluded trade unions and other civil society organizations; members are all from government, academia and the private sector, plus one ILO representative. Since workers will be the primary beneficiaries, or victims, of the Bank's new social protection and labour strategy, one wonders why the Bank rejected any presence of workers' organization experts in its Advisory Group.

More focus on low-income countries

Despite the important flaw in the consultative process for the new strategy, Global Unions have welcomed announced intentions of the Bank to revisit elements of the earlier strategy and to call for a re-orientation of some of the Bank's priorities. Chief among these is the intention to place more emphasis on developing social protection programmes in low-income countries where such programmes are often entirely absent. As the Concept Note states, "Historically the social protection and labor practice in the World Bank has been concentrated in middle income countries" (Para. 26). Data in the Concept Note reveal that between 1998 and 2010, more than 80 per cent of the Bank's SP&L spending was devoted to the middle-income regions of Latin America, Eastern Europe-Central Asia, East Asia and Middle East-North Africa, and only 18 per cent to the lower-income regions of Sub-Saharan Africa and South Asia.

The Concept Note could have gone further in revisiting the Bank's priorities, which not only largely ignored the poorest regions devoid of social protection but, under the pretext of assuring fiscal sustainability, often worked with a primary objective of reducing the state's role and responsibilities in the provision of social protection. Thus, in many middle-income countries in Latin America and Central and Eastern Europe for example, the Bank advised countries to scale down comprehensive public pension schemes and create new "second- and third-pillar" pension programmes which shifted responsibilities for old-age income security to individual workers and the contributions and provision of benefits to the private sector.

The Bank would also have done well to abandon the outmoded concept that social protection can be reduced to a question of "risk management". The Bank's view in its previous social protection strategy that old age was a "risk" rather than a reality for most people led to the Bank's earlier approach that old-age income security could best be left to individuals and private insurers, resulting in recommendations to reduce the state's role and in negative consequences in many countries. With inequality and informality increasing in most countries of the world, finding oneself in precarious, unprotected work devoid of any social protection is no longer a risk, but a certainty for an increasing share of the population. The World Bank must address the structural and systemic problems that create these phenomena – which include discrimination, disempowerment, abusive exploitation of workers and denial of rights – and assist governments to adopt strategies that correct them, rather than taking the view that social protection is principally a matter of helping individuals manage risks.

World Bank and pension reform

Although the Bank claimed in its 2001 social protection strategy that increased coverage was one of the objectives of its pension reform policies, it failed to achieve this goal through the reforms it sponsored, as trade unions predicted would be the case. And ironically, although the reduction of government responsibilities for providing pensions was one of the chief objectives of the reforms, when the 2008 global financial crisis produced a major shrinkage in the values of many of the privatized pension funds that the Bank had promoted, the Bank recommended that public monies should be spent to bail out the private providers (see World Bank, "The Financial Crisis and Mandatory Pension Systems in Developing Countries", December 2008).

In recent meetings with the ITUC, the Bank's SP&L staff stated that the institution has a adopted a more flexible approach and does not necessarily promote the partially-privatized "three-pillar" pension model that was featured in the 2001 strategy and was the Bank's template for several years. However this announced change of direction is not reflected in the Concept Note. Additionally, the assertion that strengthened social protection systems "of course … would have a mix of public and private provision" (Para. 34) seems to exclude World Bank support for countries that prefer to build or maintain comprehensive public pension or other social protection systems.

For low-income countries, the International Labour Organization (ILO)'s concept of a "Social Protection Floor" is of particular relevance and importance and has been endorsed by the entire United Nations system. Although the Concept Note mentions the concept (Para. 12), it expresses no intention of the Bank to support it or to work with the mandated UN organization, the ILO, on its feasibility, design and implementation. It may be noted that the International Monetary Fund (IMF) has joined the ILO in working to develop the social protection floor concept.

Gender issues

Issues of gender inequality should be central to the development of approaches to social protection and the labour market but receive scant attention in the SP&L Concept Note, which omits discussion of women's unequal access to social protection systems, gender-specific impacts of pension system design, women's over-representation in precarious work and the gender pay gap.

The Concept Note explicitly acknowledges important gender dimensions in the social protection goal of “promotion” of improved opportunities and livelihoods, but not in the other identified goals of “prevention” against declines in well-being and “protection” from destitution and catastrophic loses of human capital. A separated text box asserts that gender is already mainstreamed through World Bank social protection and labour programmes, though none of the background papers described in the Concept Note’s Annex mention gender inequalities or indicate that they will be analyzed or addressed.

A major absence: Labour market policy

The global financial and economic crisis of 2008-2009 should have provided the Bank with ample reasons to revisit some of the past policies it has promoted in the area of labour market policy. However one sees little evidence of that in the Concept Note. Although the Note is intended to form the base of a new World Bank strategy for social protection and labour, one finds not even a mention of the major themes that have affected the world of work in recent years, and to which other institutions have given much attention. The topics absent from the SP&L Concept Note include:

- The rapid rise of the number of unemployed and underemployed in the global economy since 2007
- The steady decline of labour’s share in national income in most countries in recent decades, explaining a large part of rising income inequality
- The failure of wages to keep up with productivity increases in many countries, thus contributing to highly unstable global imbalances in analyses published by organizations ranging from the ILO to the IMF (see for example IMF Working Paper, “Inequality, Leverage and Crises”, November 2010)
- The unequal bargaining power between workers and enterprises that often lead to inequitable outcomes for workers, as earlier World Bank reports have underlined (see for example, World Bank, *World Development Report 2006: Equity and Development*, p. 186: “Unlike the markets for many commodities, labor markets generally not competitive… This can lead to unfair and inefficient outcomes when the bargaining position of the workers is weak”)
- The constant attacks on workers’ rights, contributing to the undermining of workers’ living standards and the declining labour share in national income

- The need for adequate labour market regulations, including but not limited to the core labour standards, to protect workers' rights and interests
- An explanation of how the Bank intends to interact with the ILO, which is the lead international organization for standard-setting and policy in the areas of labour and social protection

Need for a more balanced World Bank approach to labour regulations

The adoption of a new social protection and labour strategy should be the occasion for the Bank to develop a more balanced approach than the most prominent perspective it defended until 2009, which was that all labour regulations are bad for business and that countries should therefore be encouraged to reduce them. This was the theme developed by the labour section of the Bank's highest-circulation publication, *Doing Business* (DB). The "Paying Taxes" section promoted the idea that countries should be encouraged to require no social or tax contribution from business. Between 2004 and 2009, the DB labour indicators were the keystones of the Bank's approach to labour market issues. They were used in scores of World Bank country-level reports to recommend the reduction of workers' protection regulations, and incorporated into the Bank's overall framework for determining low-income countries level of access to concessionary funds, called the Country Policy and Institutional Assessment (CPIA).

In light of the impact of the global economic crisis and its impact on workers and social protection around the world, the Bank decided in 2009 to suspend the DB "Employing Workers Indicator" (EWI) and to engage in a revision of both it and the "Paying Taxes Indicator" with the help of an external Consultative Group. After announcing the suspension of the EWI, the Bank issued a "Guidance Note for Bank Staff on the Use of the Doing Business Employing Workers Indicator for Policy Advice" (October 2009). The note explained that the decision to suspend the EWI and create a Consultative Group was based on recognition of "the importance of regulatory approaches that … guard against the shifting of risk from firms to workers and low-income families". It also stated: "Particularly in current times, a comprehensive approach in advice on labor market policies is needed."

Unfortunately, the SP&L Concept Note makes no mention of the Bank's decisions regarding suspension of the EWI, the ongoing work for revising the labour aspects of DB undertaken by the Consultative Group or the need for the Bank to take a more balanced or "comprehensive" approach to labour market issues than it has in the past. To the contrary, the Concept Note speaks positively of a Bank labour market framework called "MILES" (Para. 21), purportedly focussed on job creation, in which the use of the DB indicators was one of the major innovations.

The Concept Note does not mention that the academic study on which the labour indicators of DB were based found no correlation between the indicators and employment. Nor does it point out that the Bank's own Independent Evaluation Group (IEG) likewise investigated the claimed causality between deregulation and job creation and determined that "no significant association emerged between … *employing workers*

[DB's EWI] and employment. A recent analysis found no significant relationship between reforms as measured by changes in the DB indicators and aggregate investment and unemployment rates … [I]t suggests a need to be cautious in attributing economic outcomes to changes in the DB indicators." (World Bank Independent Evaluation Group, *Doing Business: An Independent Evaluation*, 2008, p. 8).

Adequate regulations to prevent abuse and strengthen workers' bargaining power

Unfortunately, the "groupthink" previously accepted throughout the Bank and epitomized by its highest-circulation publication that labour market deregulation is a guaranteed recipe for creating jobs despite the absence of empirical evidence, remains present in the SP&L Concept Note. In Annex 3, for example, one learns of the intention to prepare a background paper that "will start by reviewing workers protection systems and general strategies to have more flexible labor regulations", noting that a "narrowing down of the scope of labor regulations" is one of the "issues that would need to be addressed if [job-creation] policies are to be successful".

One wonders why the Bank evens bothers studying the issue if it has already decided that reduced labour regulations are necessary in each and every context. Countries such as Belarus and Georgia have implemented substantial DB-inspired labour market deregulation measures with scant evidence that this has turned them into full-employment powerhouses. However the deregulatory reforms have led to widespread abuse of workers' rights, as evidenced by the complaints before the ILO to which both countries' labour law reforms have given rise. It would seem far more appropriate for the Bank's SP&L staff to examine how to move forward in supporting adequate labour regulations that protect workers against abuse and provide them with adequate bargaining power in order to reverse the growing income inequality of recent decades.

Core labour standards

Particularly conspicuous in the SP&L Concept Note is the absence of any mention of the core labour standards (CLS), which are based on eight fundamental rights conventions of the ILO and binding on all ILO member states, and of their importance as underpinnings of a well-functioning labour market.[*] Over the past decade, the World Bank Group has made considerable progress in terms of researching the economic impact of CLS, confirming their consistency with the Bank's development mandate, supporting their observance by all member countries and requiring that some categories of Bank-funded projects comply with CLS.

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[*] 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 right to collective bargaining (Conventions 87 and 98); the elimination of discrimination in respect of employment and occupation (Conventions 100 and 111); the elimination of all forms of forced or compulsory labour (Conventions 29 and 105); and the effective abolition of child labour, including its worst forms (Conventions 138 and 182).

Since 2006, the World Bank's International Finance Corporation (IFC), through its Social and Environmental Performance Standards, has required that IFC-funded projects comply with CLS and has worked to ensure compliance by means of training, project monitoring and the establishment of a complaints mechanism. In 2010 the World Bank and the regional development banks jointly adopted harmonized contract language for major construction works requiring compliance with CLS, although the Bank has yet to adopt mechanisms to ensure implementation.

At various occasions, trade unions and labour research organizations have made the Bank aware of the presence of child workers, discrimination against women workers and denial of freedom of association in Bank-funded projects. Only with effective implementation measures can the Bank ensure that its funds are not used for these unacceptable practices. And the Bank will be credible in supporting countries' respect of CLS only to the extent that the activities it finances comply with them.

Major challenges remain both for implementation of the already adopted CLS requirements and for extending the requirement to all types of Bank lending, notably to "policy" or structural adjustment as well as project lending. This can only be accomplished by the adoption of a Bank-wide safeguard requiring compliance in all Bank-funded activities. As the Bank moves towards county systems for procurement in allocating Bank-funded contracts, it should also require that compliance with CLS is one of the criteria for using country-specific procurement systems.

Recommendations

1. The World Bank's Social Protection and Labour Strategy should include an overview of the serious problems faced by working people around the world, and which the Bank should confront though work with governments, the ILO and other international agencies, trade unions and other civil society organizations:
   - A surge in unemployment and underemployment since the 2008-2009 economic crisis that has not decreased substantially with the recovery;
   - A jump in income inequality in most countries of the world, reflecting a reduced income share and declining bargaining power of workers;
   - Continued violations of workers' rights, which may have intensified with the crisis.

2. The Strategy should promote the need for a more balanced approach to labour market issues, in which adequate regulations and better enforcement play key roles, as does improved social protection. It should explain that adequate public financing through tax and social contributions by business as well as other sources are essential for provision of the latter.

3. The Strategy should recognize that core labour standards are an underpinning of well-functioning labour markets and should support the Bank's continued promotion of CLS and the adoption of a World Bank-wide safeguard requiring compliance with CLS in all Bank-funded activities.

4. The Strategy should not give preference to private sector participation in the provision of old-age pensions and other social protection programmes. Governments that choose to build or maintain comprehensive public pension or other programmes should receive full Bank support for developing these programmes.

5. The Strategy should recognize that past World Bank reforms for pension and other social protection reforms failed, in most cases, to increase coverage. Extension of coverage, by formalizing informal-economy workers and other measures, should be the priority goal for the Bank's approach to social protection.

6. The Strategy should include a robust analysis of gender inequalities that affect access to social protection and labour markets as well as a review of how its earlier approach has affected gender equality. It should make explicit commitments to improve gender mainstreaming in its future research, policies and programmes.

7. The SP&L Strategy should support and offer its assistance for the design and implementation of the Social Protection Floor that has been developed by the ILO and endorsed by the entire UN system. This will help correct the insufficient attention to the needs of low-income countries that characterized earlier World Bank social protection frameworks.

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