Support recovery through public investment for quality jobs, not more harmful austerity

Statement by Global Unions to the Annual Meetings of the IMF and World Bank
October 2020

Introduction

1. The global pandemic and economic crisis have yet to be contained. If complacency and inaction take root, the setbacks from the crisis combined with existing problems including wage stagnation and the hollowing-out of public services will create lasting scars for the global economy and working people. The emergency support from the International Financial Institutions (IFIs) has been important in addressing health needs, massive job loss, and rising poverty. However, it is alarming that for the medium term, the International Monetary Fund (IMF) is advising the same austerity policies that created many of the vulnerabilities exacerbated by the pandemic. **The Annual Meetings should be a turning point through an overarching plan to fully finance containment, recovery, and the Sustainable Development Goals** (SDGs).

2. In this statement, Global Unions[1] provide actionable recommendations to increase IFI support for quality job creation, the real economy, and resilience. Steps include issuance of IMF Special Drawing Rights, a two-year plan for multilateral debt relief, and coordination of job-rich stimulus. Building back better can be embodied through changes including the banning of asbestos on World Bank projects, ending the promotion of public wage bill cuts that threaten the provision of health and education, aligning the content of loans with international labour standards, and institutional strategies to reduce inequality.

Response and recovery focused on jobs and the real economy

3. Two pieces of a robust emergency response are missing. **To ease liquidity constraints for its member countries, the Fund should support an issuance of Special Drawing Rights**, an international reserve asset.[2] Social protection floors are needed everywhere to ensure no one is left behind. **The Bank should collaborate with the ILO towards the creation of a Global Fund for Social Protection.** This would fill the financing gaps in countries currently unable to afford a floor, with external support being gradually replaced by domestic financing mobilised with technical advice from the IFIs. For now, the crisis is still raging. The IFIs should support continued response measures that focus on

[1] 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.
[2] ITUC, "Responding to urgent global needs: IMF Special Drawing Rights". <https://www.ituc-csi.org/IMG/pdf/ituc_brief_imf_sdr_3-2020.pdf>.

employment and incomes, with particular attention to frontline workers and those most affected by the crisis, including workers in transport, tourism, and seafarers in forced labour due to a lack of crew change.[3]

4. Once the crisis is contained, sustained IFI support will be key to a reconstruction that addresses the interlocking crises of health, economy, and climate. This will be impossible if there is a return to austerity. In most rapid credit agreements, the Fund advises countries to return to fiscal consolidation as early as next year. This resembles the Fund's stance in the aftermath of the global financial crisis, when after initial support for stimulus measures it quickly imposed harsh austerity on borrowers under the guise of tackling mounting debt burdens. That shift had severe consequences: it impeded economic recovery and resulted in increased debt burdens, while placing the weight of fiscal adjustment on working people, lowering living standards and contributing to an age of anger.[4] This is not necessary. Using public investment and coordinated wage hikes fuels growth and positive feedback cycles capable of addressing debt. For multilateralism to survive, **the IFIs need to turn the page on the failed policies of austerity, deregulation, and market fundamentalism.** Successful reconstruction will require stimulus and approaches with a proven record of fostering inclusive growth, including industrial policy and comprehensive collective bargaining. The approach to loan conditions and design must be urgently redesigned to include social dialogue and support the SDGs including health, jobs, and inclusion.

5. **For a job-rich recovery, IFIs should support public employment programmes.** This will help address the massive job and income loss and meet needs including low-carbon infrastructure. The Bank can help design programmes to protect labour rights, upskill workers, use active labour market policies to transition to private employment, and provide liveable compensation consistent with minimum wage laws and local cost of living. This will create a virtuous cycle that lifts working people out of poverty and toward long-term employment.[5] Currently, the Bank advises that some programmes should pay below the minimum wage to avoid dissuading participants from private employment.

Fostering long-term resilience through public services

6. The crisis highlighted a lack of automatic stabilisers and quality public services in many countries. IFI response loans quickly helped to expand social protection and health services. However, this comes against a backdrop of previous IFI pressure to reduce or

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[3] ITF, "Governments must protect trapped seafarers' rights', < <https://www.itfseafarers.org/en/news/governments-must-protect-trapped-seafarers-human-rights>.

[4] Bakvis, "The IMF's renewed supply-side push". <https://www.ituc-csi.org/IMG/pdf/imf_s_renewed_supply-side_push.pdf>.

[5] ILO, "Towards the right to work: A guidebook for designing innovative public employment programmes". <https://www.ilo.org/global/topics/employment-intensive-investment/publications/WCMS_559267/lang--en/index.htm>.

block the expansion of social protection through narrow targeting, and to marketize provision of services including health, education, and transport. COVID-19 should instil a shift toward supporting universal social protection, health coverage, and ensuring quality, equitable and inclusive education – not just today, but moving forward. **The Bank can take a first step by making permanent the freeze on investments in for-profit K-12 schools**.[6]

7. IFI policy advice and loan conditions on cutting or containing the public wage bill are a critical problem. Among the eighteen low-income countries that received contractionary public wage bill advice from the Fund in the three years preceding the pandemic, seventeen were short of the WHO's recommended threshold of nurses.[7] The Bank has likewise used Development Policy Lending to put downward pressure on wage bills. Public wage bill reductions are implemented in different ways, all with negative repercussions. Layoffs or hiring freezes reduce and harm the quality of service provision. Freezing or limiting wage adjustments amid inflation leads to real wage cuts, fuelling migration of skilled workers and dampening demand. **Contractionary public wage bill advice and conditions should not occur without an assessment of the effect on the provision of public services, and be immediately ended for countries falling below the minimum staffing thresholds needed to achieve the SDGs**, including the line of 4.45 doctors, nurses and midwives per 1,000 residents established by the WHO and sufficient teaching and education support personnel necessary to achieve SDG 4. Progress should continue once minimums are met.

Strengthening World Bank support for quality employment and shared prosperity

8. Sustainable development requires sharpening the Bank's tools to create quality jobs that reduce inequality and poverty. Bank leadership has indicated that Development Policy Loans (DPLs) will be at the forefront of support for recovery. Unlike investment projects, such as infrastructure construction, DPLs do not have binding safeguards protecting labour rights. In Moldova, a series of DPLs supported the limiting and fragmenting of labour inspections in the name of improving the business environment. Measures included dispersing occupational health and safety oversight across a variety of agencies and severely limiting unannounced inspections. The Committee of Experts on the Application of Conventions and Recommendations found that the latter contravened ILO standards.[8] In 2017, the labour ministry proposed changes to bring the law into

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[6] EI, "Teachers' struggles pay off", <https://www.ei-ie.org/en/detail/16730/teachers%E2%80%99-struggles-pay-off-world-bank-to-freeze-investment-in-private-for-profit-schools>.

[7] PSI, "IMF tells countries facing critical health worker shortages to cut public employment funding", <https://publicservices.international/resources/news/imf-tells-countries-facing-critical-health-worker-shortages-to-cut-public-employment-funding?id=10904&lang=en>.
See also: ActionAid, "Who Cares for the Future", <https://actionaid.org/publications/2020/who-cares-future-finance-gender-responsive-public-services>.

[8] CEACR, "Report of the Director-General: Sixth Supplementary Report", <https://www.ilo.org/gb/GBSessions/previous-sessions/GB323/ins/WCMS_357363/lang--en/index.htm>.

alignment with ILO conventions. The Bank labelled the changes “useless” and “dangerous”. When the government in consultation with social partners moved to close the gaps in 2020, the Bank pressed for reversal and warned that the changes would endanger future financing. **A systematic procedure is needed in loan design to verify that Development Policy Financing aligns with relevant ILO conventions.**

9. Ensuring that Bank operations are coherent with the standards agreed by governments, employers, and trade unions is a starting point. The Jobs and Economic Transformation agenda of the Bank recognizes the importance of creating more and better jobs. Currently, examinations of employment results are mostly limited to jobs-themed Bank projects. The IFC Anticipated Impact Measurement and Monitoring system demonstrates forward movement, but questions of job quality are not consistently addressed. **Support for the creation of more and better jobs should be honed using job quality indicators to assess lending, including examinations of post-project outcomes.**

10. Generating quality jobs with adequate wages is an essential part of achieving the twin goals of ending extreme poverty and shared prosperity, defined as rising incomes for the bottom 40 per cent. The Bank’s approach to shared prosperity and the closely linked goal of reducing inequality remains underdeveloped and internally inconsistent. After the devastation of employment in this crisis and the continuing threat posed by inequality to sustained growth and social cohesion, **the Bank should take a more concerted approach by adopting a corporate view on inequality and shared prosperity.** [9]

Guarantee safety and labour rights on Bank Group projects

11. **COVID-19 risks should be evaluated on all projects and updates made to the binding environmental and social action plans** that operationalise the labour, environmental and social safeguards. Current limits on site visits underline the importance of communication with trade unions in project design and safeguard implementation. Global Unions support increased Bank Group staffing on occupational health and safety, and annual disclosure of statistics on incidents and fatalities. Moreover, there is a need for strengthened monitoring that avoids incomplete or misleading self-reporting by borrowers. The pandemic highlights and exacerbates risks facing workers, particularly subcontracted, migrant, women, and supply chain workers. Urgent progress is necessary to address the risk of forced labour in the Paraguayan supply chain of IFC borrower Minerva Beef.[10] On infrastructure projects, COVID-19 can compound prior occupational health and safety risks that especially occur at subcontractors, meagre accommodations, and pressure to speed up construction that leads to excessive working hours.

[9] Zattler, “Rising Inequality”, <http://library.fes.de/pdf-files/bueros/usa/16777.pdf>.
[10] ITUC, “World Bank, “World Bank leaves door open to slavery in Paraguay”, <https://www.ituc-csi.org/world-bank-leaves-door-open-to>

12. Freedom of association and collective bargaining violations are a recurring problem at IFC projects, especially through retaliation against workers. At Karot Hydropower in Pakistan, anti-union actions and poor safety conditions including inadequate personal protective equipment were met with inaction by IFC.[11] At the Sheraton Palma Guinea, IFC intervention helped secure a fair union representation election despite retaliatory firings, but the company has since returned to firings and pressure on workers to bust the union. **The Bank Group must proactively work with borrowers to ensure respect for freedom of association and occupational safety, and swiftly ensure remediation when violations such as retaliatory firings occur.** Attention should be paid to preventing disguised employment, which is used to avoid responsibility and compliance. Although the Guidance Notes for both the Bank and IFC explain that the safeguards prohibit disguised employment, IFC invested in Loggi Technology. The Brazilian-based delivery company systematically misclassifies workers as independent contractors and is refusing to bargain.

13. To build back better**, the use of asbestos-containing materials should be banned on Bank Group projects** . Eliminating asbestos would increase safety for project workers, prevent any legacy issues, and help end the costly and tragic scourge of asbestos-related disease. The Bank's Environmental Health and Safety Guidelines state that the use of asbestos-containing materials "should be avoided" but stops short of prohibition. The IFC exclusion list permits "bonded asbestos cement sheeting where the asbestos content is less than 20%." The WHO notes that there is no threshold for the cancer-causing effects of all types of asbestos, that increased carcinogenic risks can occur with low exposure, and that cement used in construction is a top area of concern.[12]

Debt relief and new directions in financing sustainable development

14. Debt burdens are a threat to the world's ability to contain the pandemic, overcome the economic crisis, and achieve the 2030 Agenda. Immediate cancellation of debt owed to the IFIs should be part of a broader relief plan guided by the SDGs, alongside a framework for negotiating binding international debt restructuring. The global response so far is piecemeal, held back by the threat that credit rating agencies will downgrade countries requesting forbearance, and the lack of participation from private creditors and multilateral development banks. Repayments to the Bank represent ten to fifteen per cent of scheduled debt servicing by low-income countries in the next four years.[13]

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[11] BWI, "Rights of 3,000 workers threatened, Pakistani union files complaint vs hydropower project", <https://www.bwint.org/cms/rights-of-3-000-workers-threatened-pakistani-union-files-complaint-vs-hydropower-project-1949>

[12] WHO, "Chrysotile Asbestos", <https://www.who.int/ipcs/assessment/public_health/chrysotile_asbestos_summary.pdf>.

[13] World Bank, "COVID 19: Debt Service Suspension Initiative", <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>.

15. The IMF Catastrophe Containment and Relief Trust (CCRT), created to assist countries affected by Ebola, enabled the Fund to quickly offer low-income countries six months of repayment cancellation. **Global Unions recommend extension and expansion of the IMF CCRT through April 2022, two years from the onset of the crisis, and coverage of all concessional PRGT loan repayments. The Bank should replicate this successful model and likewise cancel repayments of concessional IDA loans**. So far, the Bank has argued that it is preferable to exceed repayments with new finance, and that debt relief would endanger its credit rating. The adoption of a CCRT-style mechanism resourced by donor governments would avoid such problems, act as a complement to additional support, and provide a framework for responding to future disasters.

16. The high debt levels in developing countries are the dead weight of unsuccessful growth strategies and unequal global economic integration. By orienting policies to the whims of private investors, including capital account liberalization and privatization, narrow prescriptions from the IFIs have aided cyclical debt traps, volatility, rising inequality, financialization, and falling labour share of income.[14] After the global financial crisis, this converged with speculative investors seeking higher returns – a pattern that could recur.

17. A full toolkit is needed to finance development. Public policy banks help create markets and economic diversification by proving viability for new industries and innovations. Far from distorting markets or crowding-out private investment, this helps grow the private sector and ensure productive use of debt. Public investment is crucial in just transition and economic diversification, including by decarbonising industries, scaling-up renewable energy and low-carbon infrastructure, improving urban and rural living conditions, and expanding the care economy. Closer partnership between the Bank Group and national development banks would deliver on the goals of financial intermediary investments and the Private Sector Window, namely catalytic support to the private sector in low-income countries and finance to small and medium enterprises, while avoiding the problems of opacity and questionable targeting of de facto subsidies. Likewise, national development banks would benefit from Bank support for strengthening environmental, social, and labour standards. **The Finance in Common summit will bring together multilateral and public banks, providing an opportunity to strengthen links and create a framework for working together to achieve the SDGs**.[15]

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[14] ITUC, "Market Fundamentalism and the World Bank Group", <https://www.ituc-csi.org/market-fundamentalism-world-bank>.
Furceri and Loungani, "Capital Account Liberalization and Inequality", <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Capital-Account-Liberalization-and-Inequality-43414>.
[15] https://financeincommon.org/

Recommendations to the International Financial Institutions

- Support coordinated and sustained economic stimulus with public investment at the forefront. Help design catalytic investment for quality jobs and a just transition to net-zero carbon emissions, including through closer partnership with national development banks.
- Ensure all necessary support to developing countries, designing programmes through social dialogue and input from international organizations. Help protect frontline workers and those most affected by the crisis.
- Provide debt relief by expanding the IMF Catastrophe Containment and Relief Trust to cover all concessional repayments through April 2022 and create a similar mechanism at the World Bank. Support the creation of a multilateral framework for binding international debt restructuring agreements.
- Support countries in financing universal social protection, health coverage, and quality education through domestic revenue mobilization, international corporate tax reform, and a Global Fund for Social Protection. Cease support of measures that weaken resilience including marketising healthcare and education, labour market flexibility, and narrow targeting of social assistance.
- 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.

The IMF should:

- Support the issuance of Special Drawing Rights commensurate with the needs of developing countries.
- Operationalise evaluation of the economic and gender inequality effects of proposed policies in all lending and surveillance.
- Reform conditionality for job-rich growth, ending promotion of deregulatory structural reform, public wage bill cuts, and attacks on collective bargaining.
- Address the structural threats to recovery and financial stability through the regulation of the financial sector, especially non-bank financial institutions.

The World Bank Group should:

- Provide funding for the public health systems and social protection, prioritising safety and resources for frontline health workers.
- Verify alignment of proposed Development Policy Loans with relevant international labour standards. Closely monitor implementation of Bank and IFC labour safeguards, ensuring workers’ rights and occupational safety for all project workers.
- Prohibit the use of asbestos-containing materials on projects.
- Add quality job creation indicators to project and institutional results measurement.
- Create a Board-approved corporate view on inequality and shared prosperity.