

Submission to IMF/World Bank Review on the PRSP Process
presented by the International Confederation of Free Trade Unions (ICFTU)
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Introduction

1. As the world's foremost body representing organized labour, the ICFTU¹ welcomed the September 1999 announcement of the IMF and the World Bank that poverty reduction would, henceforth, be the "overarching goal" of both institutions. The ICFTU's interest in and support for this goal stems from the very nature of why trade unions exist, which is to raise the working and living standards of people whose primary or only source of income is their labour. The ICFTU has affiliated organizations in countries that range from the richest in the world to the poorest, and these affiliates are found in developing, transition and industrialized economies. The ICFTU represents every class of worker from relatively well-paid professionals to landless agricultural labourers whose earnings place them and their families well below the World Bank's threshold of the extreme poor (US\$1 of income per day). Some forty per cent of ICFTU affiliates are located in PRSP countries; in fact, the ICFTU has affiliates in all but about a dozen of the PRSP countries. However the support for the poverty-reduction objective is something that is shared not only by our affiliates in the PRSP countries. Trade unions are created on the principle of solidarity, and this solidarity has entailed using the support and assistance of trade unions to assist most particularly those workers that are the most in need.

2. Trade unions have long argued that the Washington-based international financial institutions (IFIs) should be concerned not only with economic growth *per se*, but also with questions of distribution. This is one of the reasons why the ICFTU welcomed the emphasis placed two years ago on poverty reduction as an objective of IFI programmes. Putting the emphasis on raising the living standards of the poorest members of society could help to ensure that IFI policies not increase the

¹ The International Confederation of Free Trade Unions represents 221 trade union organizations in 148 countries with a total of 156 million members. ICFTU headquarters are in Brussels. See our Web-site for further information (<http://www.icftu.org>). The ICFTU works closely with the International Trade Secretariats (ITS), representing workers in different sectors, and with the Trade Union Advisory Committee (TUAC) to the OECD (<http://www.tuac.org>). All the above organizations are on the Global Unions web-site (<http://www.global-unions.org>).

income of a wealthy minority at the expense of the less well-off. Various World Bank reports have noted that most poor people are poor not because they don't work, but because their labour does not provide them with sufficient means to bring themselves out of poverty. A successful poverty reduction strategy therefore obviously requires that the question of labour standards must be addressed, as should a broad array of social and economic policy questions. The ICFTU and its affiliated national trade union organizations have expressed their willingness to work with governments, with other civil society organizations and with the IFIs in designing and implementing effective poverty reduction strategies. The present brief aims to present some recommendations to the IFIs on the basis of the past two years of experience of trade unions affiliated to the ICFTU in participating, or in attempting to participate, in national PRSP processes. This is an initial contribution which will be supplemented by suggestions that will be made by trade unionists from PRSP countries in meetings planned with the IMF and World Bank in the coming weeks.

ICFTU response to the PRSP process

3. In September 1999, the IMF and World Bank announced the process by which some eighty countries would eventually be required to produce PRSPs. When the announcement was made, the ICFTU responded positively to the three major characteristics of the process, as they were defined by the IFIs:
 - The PRSP would have to demonstrate how the use of IFI funds from debt relief or concessionary lending directly leads to the reduction of specific indicators of poverty;
 - The PRSP would be formulated by the government itself rather than by the IFIs (the concept of "country ownership");
 - The PRSP would be formulated and implemented jointly with civil society organizations.

1. The ICFTU welcomed the strengthened commitment to poverty reduction on the part of the IFIs, as well as the stress on country ownership and civil society involvement. To be quite frank, we were a bit sceptical at first as to whether the change would be more than cosmetic. This was certainly not the first time that the World Bank had

proclaimed poverty reduction to be the primary objective of the institution (it was more of a change to hear the IMF make such a statement), and we wondered whether there would be any real content behind the rhetoric. Documentation on the PRSP process issued by the IFIs later that year did seem to give a lot of emphasis to the importance of the involvement of civil society organizations, of which trade unions were defined as an important component. On the basis of these commitments on the part of the IFIs, the ICFTU sent a circular document to all its affiliated organizations in May 2000 inviting them to participate in the national PRSP process in their country, as far as it was possible for them to do so. Later that year we began preparing an ICFTU Guide on PRSPs, an initial version of which was released in May 2001. A published version in booklet format is being launched in five languages in November 2001.

Labour involvement in national PRSPs

2. As noted above, for the past year and a half the ICFTU has invited its affiliates to participate actively in national PRSP processes. What can we say about the trade union experience with PRSPs so far? Firstly, that it has been a slow process; in fact a lot slower than the IFIs themselves originally planned for. Two years after the PRSP process was announced, a total of only eight full PRSPs (as opposed to interim PRSPs, which do not require civil society involvement) have been presented to the IMF and World Bank and endorsed by them. In April 2001 the IFIs announced that the quality of PRSPs should not be sacrificed for the sake of speed. The ICFTU agrees with this objective, but not if slowing down PRSP formulation means that the process gets bogged down, which unfortunately could be the case in some countries.

3. In many of the first PRSP countries, but certainly not in all, there have been serious shortcomings regarding civil society involvement. Trade unions have never claimed to represent all of "civil society" but, since they are often the most structured and representative component of it, we feel that trade unions must be invited to take part in the national PRSP process if the participatory aspect is to have any significance. In our opinion, if organized labour is not invited, this is an indication that the national process is seriously flawed. Unfortunately, trade unions have not been invited to

participate in several countries where a PRSP has been prepared or is in the formulation stage. There are some cases in which trade unions were invited to participate in the process right from its initial stages, for example in Ghana and in Malawi. In other countries, unions were invited to come on board only after voicing complaints to the government and the IFIs about their exclusion. In Tanzania and Uganda national trade union centres were told they could participate in the PRSP process, but only after the PRSP had already been completed and endorsed by the IFIs. It is not surprising that, because of the absence of unions in the PRSP formulation stage, labour issues are given little attention in the PRSPs of these countries. ICFTU affiliates in those countries are evaluating to what extent their input will be useful in the implementation and, eventually, update of a PRSP over which they had no say. In the case in Nepal, the ICFTU's affiliate has been excluded from the PRSP process in spite of the fact that it has repeatedly shown interest and put forward ideas for the process. The Nepalese Trades Union Congress finally decided to join in the production of an "Alternative PRSP" being launched in November 2001.

4. Obviously, meaningful trade union participation cannot take place if free and democratic trade unions are not allowed to organize and function. If the IFIs genuinely value the importance of civil society involvement in the PRSP process, it follows that they must defend the right of these organizations to exist. That is why, in order to ensure the involvement of trade unions and for other equally important reasons, the IFIs must promote the respect of the core labour standards in the countries where they are active. One of the four key areas covered by these standards is precisely the question of freedom of association and right to trade union action, notably collective bargaining. Currently, the lack of trade union freedoms is a serious impediment to organized labour being able to participate in several PRSP countries, most notably in some African and Asian PRSP countries.
5. The ICFTU regrets the fact that many of the first PRSPs have not lived up to the commitment that trade unions, as civil society organizations, be involved in PRSP formulation. The ICFTU and its affiliated organizations have informed IFI staff and boards of executive directors of specific instances where trade unions were not invited to participate in national PRSP processes and will continue to press for such

involvement. We believe, as the World Bank's *World Development Report 2000* rightly points out, that real sustained achievements in poverty reduction require the empowerment of the poor, including the creation of strong civil society organizations, the building of alliances between the poor and the non-poor and genuine participatory democracy. However, recent declarations by some IFI spokespersons that civil society involvement in PRSPs could "undermine" democratic institutions in those countries are a worrisome development. Trade unions are in favour of the full participation of national parliaments in the PRSP process but note that in most of the cases where trade unions have been excluded from the process, parliaments have also not been consulted. Civil society participation and parliamentary involvement in the PRSP process are in no way mutually exclusive, as some IFI spokespersons have claimed; on the contrary, both elements should be seen as part of a genuine participatory poverty-reduction process.

6. A final point concerning the issue of trade union participation in national PRSP processes is the question of resources necessary for meaningful participation in the process. Most ICFTU affiliates in PRSP countries dispose of very limited personnel and other means to carry out even their regular functions. Resources are even scarcer for tasks related to participation in the PRSP process, which do require some research and policy formulation capacity. While the ICFTU, as already noted, has encouraged its affiliates to participate as much as is possible, we would hardly expect unions to divert resources from their foremost priorities, for example organizing workers in presently unorganized sectors, in order to fully participate in the PRSP. The ICFTU has been working with various allied organizations to make training and research support on PRSPs available for trade unions, and the International Labour Organization (ILO) has also offered to collaborate with trade unions in some PRSP countries. However substantial additional resources will be required in order to ensure meaningful participation of unions in all PRSP countries. We invite the IFIs to address this issue.

The content of PRSPs

7. While some of the PRSPs that have been endorsed by the boards of the IMF and World Bank include sections on labour issues, others do not, an absence that is

probably attributable in part to the lack of trade union involvement. The ICFTU considers such an absence to be a serious flaw since, as mentioned in the introduction, most poor people find themselves in their situation because of their poor working conditions, not because they do not work. At the very least, the PRSP should include a commitment to promote the respect of the core labour standards². World Bank publications increasingly recognize the importance of the promotion of these standards as part and parcel of the development process and the IFIs' poverty-reduction mission. The Bank's support for the core labour standards stems from the common-sense recognition that labour is often poor people's main or only asset and that respect of the standards is one of the best tools for ensuring that working people can benefit from this asset. In early 2001 the Bank completed a "toolkit" to be used for carrying out an appraisal of respect of core labour standards in Country Assistance Strategies of the IDA countries, most of which will eventually be required to prepare a PRSP. We suggest that the toolkit could also be put to good use for preparing a section on core labour standards within PRSPs.

8. One problem that trade unions and other civil society organizations have frequently encountered once the PRSP process gets going, is that governments have often been reluctant to broach some key questions that have an impact on poverty levels. These are notably issues such as monetary policy, overall government budget management, exchange rate policy and trade regime. Governments, presumably with the backing of the IFIs, have tended to try to keep discussion limited to spending decisions regarding the use of resources coming from debt relief or new IFI concessionary loans. When governments have accepted discussions on broader fiscal and monetary issues, in some cases they have only done so in a very controlled manner. For example, in Malawi the government accepted to create a PRSP working group on "macroeconomic and poverty targets" only after repeated insistence by civil society organizations, and in spite of the fact that nineteen other thematic groups had been created as part of the PRSP process. After the government finally agreed to create the macroeconomic group, only two civil society

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).

representatives were allowed to participate in it, and they were handpicked by the government to attend meetings alongside representatives of the IMF and World Bank. By acquiescing to such a procedure, one wonders how seriously local IFI representatives took the country-ownership and civil-society-involvement features that are supposed to be key elements of the PRSP process. Trade unions believe that macroeconomic policy inevitably has an important impact on growth and poverty reduction. They should be an important part of a comprehensive poverty reduction strategy and be submitted to the same degree of civil society consultation as all other issues.

The PRSP and new IFI lending

9. A major concern of trade unions has been the extent to which new IFI lending will actually be aligned on the PRSP, as is the stated policy. The World Bank has developed a new lending instrument, the Poverty Reduction Support Credit (PRSC), specifically to support initiatives coming from an endorsed PRSP. One of the first PRSC loans was made for Uganda, which was the first country to have a PRSP endorsed, in March 2000. A detailed analysis carried out by a Washington NGO comparing the Ugandan PRSP with the Bank's PRSC for the country has shown some important discrepancies between the two. For example, the PRSP stipulates that new regulatory frameworks must be put in place as public services such as health care, education and water provision are decentralized and, in some cases, privatized. This stipulation was expressed so as to ensure that poor Ugandans are not deprived of access to these services as they are restructured. The PRSC provides funding for the decentralization and privatization initiatives without requiring that regulatory apparatuses be put in place.

10. In November 1999, the name of the IMF's Enhanced Structural Adjustment Facility (ESAF) was changed to Poverty Reduction and Growth Facility (PRGF). It was announced that, as compared to the ESAF, PRGF loans were to have more flexible fiscal targets, more selective structural conditionality, and include social impact analysis of structural and macroeconomic reforms. The IMF also stated that the PRGF would be "progressively aligned" to PRSPs as they began to be formulated. Unfortunately there is little evidence that this is happening, according to reports the

ICFTU has received from affiliates. Reports that we have received on recent PRGF loan conditions do not indicate that conditions are more flexible in some key areas affecting poverty reduction, notably monetary policy and fiscal policy. And despite claims that the Fund would set less conditions outside of its "core areas of expertise", i.e. monetary, fiscal and exchange rate policies, there has actually been an increase, according to the IMF's own analysis, of conditions in some "non-core" areas, notably trade regime and capital account.

11. There is in fact much evidence that PRGFs are being negotiated with governments in processes that are parallel to, but independent of the PRSP process. To give an example, in May 2001 the government of Ghana began a civil society consultation for PRSP formulation in which the ICFTU's affiliate, the Ghana TUC, participated. During this meeting, the TUC and other civil society organizations mentioned the importance for the PRSP to cover issues such as privatization, domestic market liberalization, trade and capital market liberalization, fiscal and monetary policy, and labour regulation. All were very surprised when, barely a month later, in June 2001, the government signed a letter of intent for a new PRGF, which fixes several macroeconomic benchmarks and performance criteria precisely in those areas raised at the civil society consultation. The TUC's analysis of the letter of intent was that these conditions would in fact impose serious constraints on the capacity of the PRSP to influence government policy. If the PRSP is to be at all coherent with IMF lending conditions, it will likely not be the PRGF that will align itself to the PRSP, but rather the other way around. In this case and in others, it seems obvious that the PRGF loan conditions have been established as if the PRSP process did not exist.

12. While on the subject of the IMF, we believe that it is important to raise a few concerns about the Fund's intent to "streamline conditionality", a process which is presently underway, as it relates to the Fund's stated commitment to national poverty reduction strategy processes. The IMF has stated that it wishes to be less intrusive towards national governments in areas outside of its "core areas of expertise". While trade unions certainly support the idea of the IMF no longer trying to dictate labour market reforms and privatization agendas, there is no indication so far that the IMF is backing away from wide-ranging prescriptions touching state-owned enterprises or social and labour policy. In the annual country-level Article IV

Consultation Staff Reports, which are presented to governments and the IMF board of directors, there even appears to have been an increase in the past several months in recommendations on labour matters. Usually these are proposals that governments use their influence to lower wage levels or that they introduce measures to increase "labour market flexibility". On the other hand, when unions sometimes request that the IMF make good on its stated support for the core labour standards by raising the issue when these standards are violated by a government, they are told that these are matters outside of the Fund's area of responsibility. Thus, this retreat to the "core areas" of conditionality seems to be somewhat selective.

13. We are worried that a retreat to "core areas" of conditionality could mean that national poverty reduction strategies will not be taken account of in defining macroeconomic policy. When the IMF changed the ESAF to the PRGF two years ago, it announced that loan conditions would be aligned with PRSPs. By declaring this, the IMF seemed to recognize that macroeconomic parameters needed to be adjusted in tune with poverty reduction objectives. As mentioned earlier, we have seen little indication so far that the Fund has been more flexible in terms fixing fiscal and monetary policy benchmarks in order to align them with PRSPs. In addition, by declaring that the Fund will no longer concern itself with social issues that are outside of the "core areas", even if they are important components of poverty reduction strategies, the risk exists that the gulf between macroeconomic policy and poverty reduction will grown even greater. In this way, "streamlined conditionality" could create situations in which IMF conditionality systematically undermines national poverty reduction strategies.

Recommendations

14. The following conclusions and recommendations have been formulated on the basis of the experience of ICFTU affiliates with national PRSP processes, as described in the preceding pages:
 - As an important component of civil society, trade unions should be invited to be involved in PRSP formulation processes and the IMF and World Bank should not

recommend endorsement of PRSPs where trade unions have not been invited to participate.

- In order to guarantee meaningful participation of trade unions in national PRSP processes, the IMF and World Bank should promote the respect of the freedom of association, which is one of the areas covered by the core labour standards.
- The IMF and World Bank should examine how resources can be made available so as to allow a greater degree of trade union participation in national PRSP processes.
- PRSPs should include sections on improving labour standards as a means to poverty reduction and, at the very least, should include a commitment to promote the respect of the core labour standards.
- Macroeconomic policy issues should be included in civil society consultations on PRSPs since they are an important part of a comprehensive poverty reduction strategy.
- Both the World Bank and the IMF should ensure that lending conditions of new concessionary loans (PRSC and PRGF) are aligned with priorities defined in the national PRSP.
- The IMF should take precautions to ensure that, in the course of the Fund's process of "streamlining conditionality", commitments to poverty reduction not be set aside as being outside of the IMF's core areas of expertise.

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