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U.S. House of Representatives on
"The Fight against Global Poverty and Inequality: the World Bank's Approach to Core Labor Standards and Employment Creation"

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Mr. Chairman, members of the Committee on Financial Services, I thank you for the opportunity to testify today on the World Bank's approach to labor standards and employment creation.

My organization, the International Trade Union Confederation (ITUC), represents 168 million working men and women in 153 countries around the world, including, in this country, the 10 million members of the AFL-CIO. The policies of the World Bank and the IMF have the most direct impact on the two-thirds of the ITUC's members who live in developing and transition countries. These policies also have indirect effects on U.S. workers, which I am sure the representative from the AFL-CIO will address.

I have been the ITUC's Washington representative for almost eight years, mostly working to make the Washington-based international financial institutions (IFIs) more aware of the need to put decent employment creation, including respect for basic workers' rights, in a central position in their policies, which include poverty reduction as their stated priority objective.

The U.S. Congress took the lead in urging the World Bank and IMF to pay more attention to the impact of their policies on workers when, in 1994, it enacted a mandate instructing the United States' Executive Directors to use their voice and vote at the IFIs "to adopt policies to encourage borrowing countries to guarantee certain internationally recognized worker rights." This was four years before the International Labor Organization (ILO), which has almost the same membership as the IFIs, made observance of the core labor standards a *de facto* condition for membership.[2]

I am pleased to say that, in my view, the World Bank has, in recent years, taken some important steps forward in terms of ensuring that its operations are in line with the core labor standards. But I am also disappointed to say that Bank has developed

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 168 million members in 153 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, ICEM, IFJ, IMF, ITF, ITGLWF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.
[2] Core labor 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 labor (ILO Conventions 29 and 105); and the effective abolition of child labor, including its worst forms (ILO Conventions 138 and 182).

simultaneously an anti-labor standards approach in what has become the Bank's leading annual publication, and furthermore, has incorporated that approach into its overall labor markets strategy and used it as a template to pressure dozens of countries to dismantle worker protection rules. I would like to elaborate briefly on both points.

First, on the steps forward. After several years of encouragement from a number of countries including the U.S., and organizations such as mine, the president of the World Bank put himself on record starting in 2002 that the Bank supported the core labor standards and considered them to be consistent with and supportive of the Bank's development goals. The Bank did this after having carried out several years of research to determine the economic impact of the standards. The conclusion: each of the four standards – prohibition of forced labor, elimination of child labor, the elimination of discrimination in the labor market, and freedom of association and right to collective bargaining – either had positive, pro-growth economic impacts or, at the very least, did not hinder growth but did achieve a more equal distribution of income and thus less poverty. The latter was notably the conclusion of a book on *Unions and Collective Bargaining* published by the Bank in 2002.[3]

While congratulating the World Bank for having taken this important step in favor of the core labor standards, we also told it that acts are as important as words, and showed Bank officials evidence of at least three of the four standards being violated in World Bank-financed projects. The Bank's private-sector lending arm, the International Finance Corporation, was the first to acknowledge that it should ensure that its own house was in order. The head of the IFC told us in 2003 that he agreed that all companies borrowing from the IFC should be required to abide by the core labor standards.

It took until May 2006 before the IFC adopted and started implementing the requirement, but it finally did, and we have been cooperating with the IFC in meeting the challenges of implementation. The IFC has held meetings with the trade union organizations, employers and the ILO, and has responded to some of our suggestions. The IFC also created a labor advisory committee to give it regular advice on implementation. I am pleased to have been named as one of the members of that committee.

Last December, the president of the World Bank told us that a requirement to abide by the core labor standards would also be introduced into World Bank contracts for public-sector infrastructure projects. That language was indeed included in April of this year in a revised Standard Bidding Document for Procurement of Works, which lays down the conditions that contractors building Bank-financed projects must meet.

As with the IFC standards, the Bank obviously has some work to do in its verification and monitoring procedures to ensure that the requirements are being applied. There are questions about how the "country systems" approach, which could lead to the Bank eventually using national procurement systems for World Bank-financed projects instead of the Bank's own standards, will affect the requirement. There is also more that the

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[3] Aidt & Tzannatos, *Unions and Collective Bargaining: Economic Effects in a Global Environment* (World Bank, Washington, 2002)

Bank could do in other areas that I will mention in a moment, but I think it is important to note that the Bank has taken important steps in the right direction, and these are encouraging.

That is what the World Bank is doing in terms of ensuring that the projects it finances don't violate the core labor standards. Then you have the World Bank's involvement in labor law reforms, which, unfortunately, is going in a completely different direction. Since 2003, the lead department which is setting the tone for the Bank's approach on labor market reforms is the Private Sector Development department, which produces an annual publication called *Doing Business*.[4]

Now, the Bank claims that the purpose of *Doing Business* is to identify and measure impediments to private-sector investment, such as delays in issuing business permits or laxity in enforcing contracts, with the intent of encouraging countries to reduce such impediments. We have nothing against this kind of exercise when it concerns matters such as these two examples. But when the Bank uses the same methodology on labor standards, identifying labor regulations as nothing more than a nuisance to investors and having no benefit, economic or other, then, I submit, there is a serious problem.

Doing Business includes an index on "Employing Workers" that gives the best scores to countries that have the least amount of regulations, whether they be minimum wages; maximum hours of work; advance notice for mass lay-offs; severance pay; rules concerning priority in hiring or firing, including some types of affirmative action rules; and payroll taxes to finance workmen's compensation, social security or health care. Countries that have the least of these get the best score, no matter how workers are treated or what success the countries have or have not achieved in terms of employment creation.

For two years in a row, in 2006 and 2007, *Doing Business* gave the global "Best Performer" ranking for "Employing Workers" to two tiny Pacific island states, Palau and Marshall Islands, that were not even ILO members. In *Doing Business 2008*, which came out last week, the ex-Soviet republic of Georgia is praised as the top reformer for its labor laws, because it did away with most of its worker protection rules in 2006. Many working conditions are now no longer subject to collective bargaining, any worker can be dismissed without valid reason, and trade unions have been effectively marginalized. Furthermore, unions can be prohibited altogether if they are judged to be stirring up "social conflict."

The ILO has criticized Georgia's 2006 reform and its overall labor practices as being in contravention of four of the core labor standards conventions, including the two child labor conventions. The labor law reform is also being investigated by the European Union for being in possible violation of Georgia's requirements to have access to the EU's Generalized System of Preferences (GSP). Yet this is a country that *Doing Business 2008* holds up as a country where "workers … have the best protection."

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[4] World Bank, *Doing Business 2008* (Washington, 2007).

If you read what *Doing Business* says in its chapter about "Employing Workers," it actually implies that core labor standards are not a bad thing. However, what is important is that *Doing Business* does not take the core labor standards into account in determining its country scores. Georgia is not the only country that gets good marks from *Doing Business* even though it violates the standards. Countries like Belarus, China, Colombia and Saudi Arabia, that are recurrent serious violators of the standards, get better marks than most countries in Western Europe and several developing countries that do not have serious worker rights problems.

Doing Business asserts that the countries on which it confers better "Employing Workers" indicators create more and better jobs. The handful of economic studies it has cited to justify this assertion have been contradicted by more serious and up-to-date studies and, in one important case, *Doing Business* misstates the conclusion of a study which it says justifies its methodology. The ILO and the ITUC have recently completed, independently from each other, analyses that point out the serious problems in the methodology and lack of evidence to back up key assumptions.[5]

Nor do the anecdotal cases cited by *Doing Business* support its affirmation that elimination of labor regulations automatically translates into employment creation. Two earlier editions of *Doing Business* asserted that Colombia's labor reforms would produce "the largest payoffs" in reducing unemployment. A year after that statement, the World Bank did a special study on the employment impact of Colombia's labor market reforms, which concluded that the impact "seems to have been modest" and is in fact impossible to confirm at all.[6] In the country of Georgia, unemployment actually went up after it adopted the labor reform lauded by *Doing Business*.

Georgia gets the best score in all of Central and Eastern Europe for its *Doing Business* labor score, followed by Kazakhstan and Belarus, which lost its GSP status with the European Union because of labor rights abuses. Slovenia, which has the lowest unemployment, best labor conditions and best social programs among all the ex-communist countries, gets the worst *Doing Business* ranking in the region for its labor regulations.

Among *Doing Business*'s best performers in Latin America and the Caribbean for "Employing Workers" is Haiti, the poorest country of the hemisphere with the lowest wages, almost no social protection and 80 percent of the population living below the poverty line. Among the worst performers for "Employing Workers," again according to *Doing Business*, are the high-performance economies of Brazil and Peru, which have both enjoyed stable growth and, in the case of Brazil, has considerably improved social protection for the most vulnerable workers.

[5] Berg and Cazes, *The Doing Business Indicators: Measurement issues and political implications* (ILO, Geneva, 2007) and ITUC/Global Unions, *The IFIs' Use of Doing Business to Eliminate Workers' Protection: Analysis of Doing Business 2008 and new country cases* (Washington, 2007).
[6] World Bank, *Colombia: Country Economic Memorandum* (Washington, 2005) and World Bank, *Colombia: Labor Market Adjustment, Reform and Productivity* (Washington, 2005).

It would be easy to laugh off the obviously flawed grading system that leads to these nonsensical results if *Doing Business* were not playing such an important role in the policy advice and loan conditions on labor issues put forward by both the IMF and World Bank. *Doing Business* is being used in the following three ways:

- The *Doing Business* labor indicators are used for determining the overall level of access to the concessionary lending and grants dispensed by the World Bank's International Development Association (IDA), through a mechanism called the Country Policy and Institutional Assessment (CPIA). Ironically, *Doing Business* is used as a "Guidepost," or measuring rod, in a section of the CPIA that purports to give better marks to countries that apply the core labor standards and have good social protection programs. If anything, *Doing Business* gives better marks to countries that do the opposite.

- The *Doing Business* labor indicators have been incorporated into the Bank's overall labor markets strategy, which is called by the acronym MILES, where the "I" stands for Investment Climate. The Bank's new labor markets strategy, which was designed in 2006 by the Bank's Human Development Network, states that it will use *Doing Business* "to develop policy instruments to create a more employment-friendly climate for business."[7]

- Not surprisingly, given the incorporation of the *Doing Business* approach on labor into important policy instruments, a growing number of country strategies, adopted not only by the World Bank but also by the IMF, have used the *Doing Business* labor indicators to drive down labor standards. Between October 2006 and July 2007, almost half of the Bank's new Country Assistance or Country Partnership Strategies (CAS/CPS) included recommendations to deregulate labor markets on the basis of *Doing Business* ratings. In contrast, only about one in ten CAS or CPS in recent years include the assessment of countries' compliance with core labor standards that was a recommendation in the IDA12 replenishment agreement of 1998. Between October 2006 and July 2007 about half of IMF Article IV Consultation reports, the Fund's annual country-level policy report, include labor market deregulation recommendations based on *Doing Business*.

These policy recommendations include the World Bank telling Macedonia in its CPS last March to eliminate certain worker protections in order to improve the business climate as measured by *Doing Business*, even though the country completely overhauled its labor legislation in 2005. The Bank never evaluated the impact of that reform and the CPS includes the results of a survey which shows that labor regulations come fifteenth and near last on the list of concerns mentioned by Macedonian business owners, well below several other concerns that the Bank's strategy does not address.

The IMF told the government of Jordan – a country where U.S.-based organizations have exposed widespread abuse of workers, particularly among migrants in export-processing

[7] World Bank, *MILES: A Multi-Sector Approach to Foster Job Creation, Poverty Reduction and Growth* (Washington, April 2007)

zones – that there has been "slippage" in its *Doing Business* labor ratings and that it should make it easier for firms to fire workers. This would likely counteract efforts the ILO has undertaken, working jointly with the Jordanian government, to address abuse of workers in these zones, which send a large part of their production to the U.S. market.

Several countries, including recently Algeria and Mauritius, have been told by the World Bank or IMF to dismantle sector-level bargaining arrangements so as to improve their *Doing Business* scores, even though *Doing Business* does not purport to measure specific bargaining arrangements. Moreover, the previously cited Bank's own research on *Unions and Collective Bargaining* has concluded that countries with highly coordinated collective bargaining tend to have lower unemployment. In other words, *Doing Business* is being invoked by the IFIs to pressure countries to adopt policies that may even increase unemployment.

In some countries, labor market reforms based on *Doing Business* have been imposed as loan conditions by the IMF or World Bank. Examples include Burkina Faso, Colombia, Kyrgyzstan and Nepal. Several World Bank country programs have included financial assistance to carry out labor law reform specifically aimed at improving *Doing Business* labor market indicators; in one case the Bank called it a "*Doing Business* loan." A week ago, the ITUC released a new report documenting sixteen specific country cases on the use of *Doing Business* to drive down worker protection.[8] These add to seven other cases documented last year.

I would like to conclude by presenting you a few suggestions on how I think the World Bank could make useful contributions to improving compliance with the core labor standards and to employment creation:

1. It is certainly debatable whether the World Bank should get involved in labor law reforms at all, since this is clearly a mandate of another international institution, the ILO. If the Bank does get involved, it should endorse and adopt the ILO's Decent Work agenda, which has the objective of maximizing the total volume of employment, but also pays attention to the quality of jobs, including social protection coverage, and the possibility for workers to exercise their basic worker rights as expressed in the core labor standards. If it were to adopt the Decent Work agenda, the Bank would stop encouraging countries to get rid of all advance notice for dismissal requirements and reduce statutory severance pay, as it presently does using *Doing Business,* until countries have put in place adequate social protection such as unemployment benefits, which don't exist in most developing countries.

2. *Doing Business* should be removed from the World Bank's overall labor markets strategy, of which it is presently a central pillar, and the issue of labor markets should be removed from the purview and mandate of *Doing Business*. The basic premise of *Doing Business* that all labor standards are nothing more than impediments to investment is based on false economics, and four years of

[8] ITUC/Global Unions, op. cit.

its application by the IFIs in eliminating worker protection has created unacceptable social and economic damage. Instead, the World Bank should put the ILO's concept of Decent Work at the center of its employment creation and labor market strategies.

3. By the same token, the *Doing Business* labor market indictors should be removed as a "Guidepost" in the Bank's Country Policy and Institutional Assessment for measuring whether countries have good social and labor policies, since *Doing Business* actually favors their elimination. If the Bank retains the CPIA as a determinant for access to IDA funds, it should develop accurate tools for assessing the qualities of countries' policies. In the case of social and labor polices, it could collaborate with the ILO in determining the feasibility of such tools. Additionally, the World Bank should prioritize programs that work towards achievement of Decent Work objectives. Some examples would be supporting improved labor conditions in employment-intensive industries (along the model of "Better Factories Cambodia"), and supporting expanded social protection coverage, rather than privatizing social security, as has been the Bank's main focus until recently. Following up on the IDA12 recommendation of 1998, the World Bank should be required to include an assessment of compliance with core labor standards in *all* Country Assistance and Country Partnership Strategies. As part of the assessment, the Bank should make the links between the need to improve compliance with the standards and the Bank's specific programs in the country for reducing poverty and inequality.

4. Finally, the World Bank should adopt an operational policy requiring that all of the projects and activities that it finances do not violate the core labor standards. While some divisions of the Bank have taken important steps towards achieving this objective, the fundamental human rights for workers embodied in the standards are too important for their observance in Bank-financed projects to be left up to the whims of individual managers. Furthermore, some of the gains could be threatened by processes such as the "country systems" approach, unless precautions are taken by making it official policy that the World Bank cannot finance activities that contravene the core labor standards.

Thank you for your attention and the invitation to appear before you today. I look forward to your questions.