

2002 REPORT TO  
CONGRESS ON LABOR ISSUES AND THE  
INTERNATIONAL FINANCIAL INSTITUTIONS

UNITED STATES DEPARTMENT OF THE TREASURY

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## 2002 REPORT TO CONGRESS ON LABOR ISSUES AND THE INTERNATIONAL FINANCIAL INSTITUTIONS

### EXECUTIVE SUMMARY

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This report is presented in compliance with section 526(e) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995 (Pub. L. No. 103-306), which directs the Department of Treasury to urge the establishment of a process within the International Financial Institutions (IFIs) to evaluate borrowing member countries' recognition of internationally recognized worker rights, and to include the status of such rights as an integral part of the IFIs' policy dialogue with each borrowing country. The Act requires that Treasury report annually to Congress on the IFIs' progress toward these two goals, as well as on efforts to establish formal procedures to screen projects and programs funded by the IFIs for any negative impact on internationally recognized worker rights.

The Treasury Department's strategy is to maintain the forward momentum in the IFIs' recognition of core labor standards<sup>1</sup> (CLS) as an important issue to be integrated into their development agenda. To this end, Treasury encourages enhanced cooperation among the IFIs and the International Labor Organization (ILO), uses opportunities such as multilateral development bank (MDB) replenishment negotiations to establish best practices on CLS policies, and monitors and takes appropriate action on individual lending and non-lending programs that come before the respective Boards of Directors for decision.

#### **Highlights of Recent Activities:**

Based on U.S. advocacy in the IDA-12 replenishment negotiations, which concluded in July 2002, CLS are being mainstreamed into the World Bank's ([www.worldbank.org](http://www.worldbank.org)) development policies and practices. For example, the Bank, in consultation with the ILO, recently produced a new website on a "Core Labor Standards Toolkit for Staff Preparing Country Assistance Strategies." The toolkit is a direct consequence of the replenishment negotiation's recommendation that CASs include a diagnostic review of core labor standards and is intended to assist staff in fulfilling this recommendation.

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<sup>1</sup> For the purposes of this report, the terms "internationally recognized workers' rights" and "core labor standards" are used interchangeably and refer to the International Labor Organization (ILO) Conventions 29, 87, 98, 100, 105, 111, 128, and 182.

The U.S. helped secure commitments on CLS in the Asian Development Bank ([www.adb.org](http://www.adb.org)) latest replenishment agreement of late 2000. A direct result has been that the ADB formalized its relationship with the ILO based on a Memorandum of Understanding (MOU) signed in May 2002. Under the MOU, the Bank seeks to promote the ILO's current work agenda by encouraging Developing Member Countries (DMCs) to promote employment generating growth, and to observe international labor standards, social protection, and gender equity. The MOU covers a range of possible collaborative activities with the ILO in Bank operations, including exchanges of relevant information on research and best practices and technical assistance related to labor market assessments, identifying social protection interventions, and other related areas where the ILO has the expertise.

The Inter-American Development Bank ([www.iadb.org](http://www.iadb.org)) has a wide array of programs, loans, and technical assistance operations, which attempt to address labor market issues. For instance, the Bank is financing programs in Brazil and Mexico to keep children in school and out of the labor market.

The International Monetary Fund ([www.imf.org](http://www.imf.org)) and the ILO continue to cooperate at the field level in the review of labor codes, wage policies, and social protection mechanisms, and the two institutions exchange drafts of their annual reports for comment. The U.S. Executive Director (ED) continues to raise labor issues in Board discussions of country programs and conditions, with some effect. For example, Peru passed a law in December 2002 which addressed some of the collective bargaining and right to strike issues that the U.S. Executive Director raised in June 2001.

## **Development Agenda**

The Administration's development agenda focuses on two goals: increasing economic growth and increasing economic stability. The MDBs can do a better job in spurring the economic growth needed to combat poverty and improve people's lives if they place greater attention on two aspects of the development agenda that underlie most success stories: (1) the factors that enable people and countries to become more productive; and (2) better measuring, monitoring and managing for development results in individual projects as well as country assistance strategies.

From the start of the Administration, we have pursued hallmark reforms in the MDBs in both of these complementary areas. We have also worked to achieve an increase in the proportion of assistance to the poorest countries delivered in the form of grants rather than loans. Treasury believes that this development agenda is important to improving the economic and social well-being of individual workers and their families, and that it complements U.S. efforts to promote CLS.



# 2002 REPORT TO CONGRESS ON LABOR ISSUES AND THE INTERNATIONAL FINANCIAL INSTITUTIONS

## I. INTRODUCTION

This report is presented in compliance with section 526(e) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995 (Pub. L. No. 103-306) (hereinafter referred to as the Act).<sup>2</sup> The Act requires the Department of Treasury, in conjunction with the U.S. Executive Directors (USEDs) of the International Financial Institutions (IFIs), to urge the IFIs to: adopt policies encouraging borrowing countries to guarantee internationally recognized worker rights and include the status of such rights as an integral part of the policy dialogue with borrowing countries; use the relevant conventions of the International Labor Organization (ILO) in the development of these policies; and establish formal procedures to screen projects and programs for any negative impact in a borrowing country on internationally recognized worker rights. The Act requires that Treasury report annually to Congress on the IFIs' progress toward these goals, as well as the extent to which each borrowing country guarantees internationally recognized worker rights.

The objectives of this report are to: (a) outline the procedures that the Treasury Department follows to promote the systematic integration of internationally recognized worker rights into IFI operations and analytical work and (b) discuss developments in IFI policies and practices toward this end. The report also touches briefly on the overall development agenda that the Treasury Department is pursuing in the multilateral development banks (MDBs) because of its relevance to improvements in the living standards of individual workers and their families.

The report covers the period between October 1, 2000 and September 30, 2002.

### **Interpretation of the Legislation**

The Act requires that Treasury urge the respective institutions to use the relevant ILO conventions on internationally recognized worker rights in developing their policies.<sup>3</sup> These are: the right of association; the right to organize and bargain collectively; a prohibition on the use of any form of forced or compulsory labor; and certain minimum

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<sup>2</sup> For the text of the law, see Appendix 1.

<sup>3</sup> In the legislation mandating this report, the International Financial Institutions (IFIs) are defined as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD - the World Bank Group), the Inter-American Development Bank Group (IDB), the Asian Development Bank Group (AsDB), and the African Development Bank Group (AfDB). The IMF is broadly responsible for macroeconomic policy recommendations and short-term balance of payments financing, while the multilateral development banks (MDBs) promote economic development through sector specific project and program loans and technical assistance. While not specifically identified in the legislation, the European Bank for Reconstruction and Development (EBRD) is also included as an IFI for purposes of this report.

labor standards that take into account differences in development levels among nations, including a minimum age for the employment of children, acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

Public debate and discussion at the international level have produced a slightly different definition of the paramount international labor rights and standards than those identified in the legislation. The international definition of labor standards that is most widely recognized is described in the ILO's *Declaration on Fundamental Principles and Rights at Work*, whose standards are usually referred to in the U.S. as core labor standards (CLS). The CLS have received widespread international recognition and have been used in multilateral discussions in such fora as the United Nations, the Organization for Economic Cooperation and Development (OECD), and the World Trade Organization (WTO). CLS include: the right of association; the right to organize and bargain collectively; a prohibition on the use of any form of compulsory or forced labor; nondiscrimination in employment; and the elimination of exploitative child labor. CLS are considered, by the international community generally, to be applicable universally and irrespective of the state of economic development of particular countries.

Treasury focuses primarily on CLS in developing policies and engaging on labor issues at the IFIs, but also includes those minimum labor standards specifically outlined in the legislation and other labor issues often associated with IFI programs. This report, therefore, includes, besides information on CLS issues, information on significant efforts by the IFIs on social safety net issues, workplace health and safety, and certain other minimum standards related to labor.

The Act also requires a report on the extent to which each borrowing country guarantees internationally recognized worker rights. This requirement is currently being met by the State Department's *Country Reports on Human Rights Practices*, which is issued annually. This report evaluates human rights and worker rights conditions in all countries receiving foreign assistance from the United States; in all countries that are members of the United Nations; and in any other countries or territories that the Department of State considers merit inclusion in the report.

## **II. TREASURY DEPARTMENT POLICIES AND PRACTICES**

Treasury supports the IFI's recognition of CLS as an important issue by encouraging enhanced cooperation among the IFIs and the ILO, using opportunities such as replenishment negotiations to establish best practices on CLS among the different IFIs, and monitoring and taking appropriate action on individual lending and non-lending programs.

With the U.S. taking a leadership role, the treatment of CLS was incorporated into recent replenishment agreements at the World Bank and the Asian Development Bank. As part of the twelfth replenishment of the International Development Association (IDA-12), the World Bank agreed to include a review and analysis of CLS in the Bank's

Country Assistance Strategies (CASs).<sup>4</sup> The Bank began to implement the IDA-12 agreement in 2000. The thirteenth IDA replenishment (IDA-13) reinforced both the importance of CLS and their treatment in CASs. Consequently, these issues were addressed in the IDA-13 report agreed among forty donor countries in July 2002 and subsequently were formally approved by the World Bank's Executive Board and by the Bank's Board of Governors (see Appendix 3 for extracts from the IDA-13 Agreement).

The U.S. also secured commitments on CLS in the Asian Development Fund's most recent replenishment (ADF-8), which went into effect in January 2001.

- Donors recommended that the ADB address the CLS on two fronts. First, that the ADB mainstream CLS considerations in planning its projects and programs. Second, that the ADB continue to support direct investments in projects that will enable the ADB and its Developing Member Countries to address CLS issues in a more holistic manner. (paragraph 77)
- Donors recommended that the framework and action plan for addressing CLS issues in the design and implementation of ADB operations be completed as soon as possible so that it will be applied in ADF-8. (paragraph 78)
- Donors recommended that the ADB formalize its relationships with international organizations that promote CLS. (paragraph 80)

In connection with these recommendations, Donors requested that a report on progress on the planned framework and action plan on CLS be provided to Donors at a Midterm Review of ADF-8 to be held immediately preceding the ADB's 2003 Annual Meeting.

With regard to individual lending and non-lending programs, the Treasury Department has internal guidelines for engaging CLS issues at the MDBs and the IMF. These guide the development of internal Treasury positions on CLS issues and inform U.S. Executive Directors (USEDs) for their interventions at the Executive Board and staff levels.

Working with the respective USED office, the Treasury Department reviews all MDB loans and grants to ensure that proposed projects and programs address CLS where appropriate. In addition, Treasury and the USED offices review all MDB Country Assistance Strategies (CASs) to ensure that CLS are addressed. The CASs are the primary documents used to express the institutions' policy approach to individual borrowing member countries. In addition, the Treasury Department reviews IMF Article IV surveillance reports, program proposals, and program reviews, for consistency with core labor standards and related labor issues. These collaborative efforts guide the development of internal Treasury positions on CLS issues and serve as the basis for USED interventions at the Boards of Directors.

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<sup>4</sup> The CAS is the basic planning document used by the World Bank setting out how the Bank intends to use its lending and other programs to help countries meet their development goals.

### III. IFI POLICIES AND PRACTICES

Following is an institution by institution description of cooperation with the ILO as well as details on actions being taken to incorporate CLS in policies and programs that the IFIs fund:

#### A. World Bank Group

The World Bank engages with trade unions in numerous ways: consultations with union members who are stakeholders in Bank projects; national consultation with unions as members of civil society; international policy dialogue on economic and social issues; research on the economic effects of collective bargaining; and training programs for both Bank staff and trade unions. The Bank also holds meetings with international trade union representatives twice a year.

CLS are being mainstreamed into the Bank's development policies and practices, and the Bank and the ILO have a productive ongoing dialogue. This is reflected in a number of informative Bank websites dealing with such topics as CLS, social protection and labor, and the Bank's relationship with the ILO and trade unions.

One of the more recent additions, reported in the Fall 2002 edition of ILO Focus, is the Bank's new website on a "Core Labor Standards Toolkit for Staff Preparing Country Assistance Strategies." This online toolkit provides a 3-step process for:

- Understanding CLS and their relevance to development and poverty reduction (this includes the IDA-12 and IDA-13 recommendations);
- Locating information on CLS on specific countries; and
- Diagnosing CLS in the CAS (including examples).

The toolkit is a direct consequence of a recommendation from the IDA-12 replenishment negotiations, reaffirmed in the IDA-13 report, that CASs include a diagnostic review of CLS. The toolkit is intended to assist staff in fulfilling this recommendation. The ILO provided technical input to the Bank for preparing the toolkit's information package, which according to an ILO staff paper, provides "a major incentive for both the ILO and the World Bank to encourage their field staff to engage in needed country-level dialogue on CLS and related labor and employment issues."

Other key activities that the Bank has engaged in include:

- Bank research supports the standards related to harmful child labor, forced labor, and gender equality in the labor market. Policy dialogue and technical assistance with client countries reflect such findings.

- In addition to engaging in policy dialogue with borrowing countries, the Bank's work on child labor includes improving partnerships with other relevant international organizations, including the ILO and UNICEF, and non-government organizations (NGOs); giving attention to child labor issues in Bank lending activities; requiring compliance with applicable child labor laws and regulations in specific projects where exploitative child labor is otherwise likely to occur; and designing specific projects or components of projects to combat the most harmful forms of child labor.
- Contracts with private sector employers issued by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) include requirements not to employ child labor or forced labor.
- The Bank has repeatedly made it clear that it has not and would not support projects in which forced labor was or would be employed.
- Promotion activities to encourage an atmosphere conducive to the achievement of CLS include policy dialogue with international trade union organizations and the ILO, a training program for Bank staff on how to work with trade unions, and the Global Child Labor Program, which, in partnership with other international organizations and NGOs, engages in projects to reduce harmful child labor.
- The Bank engages in a number of activities to support a positive role for unions in development. The World Bank has been engaged with trade unions – at firm, country, and international levels – for several years and staff level dialogue with trade unions is encouraged.
- The Bank has undertaken analytical work, e.g., on the economic impacts of freedom of association and collective bargaining, to understand better how CLS can contribute to its mission.

As a result of these efforts, CLS are now being incorporated into CASs, most importantly in those countries where the issue is of major consequence. The following text is extracted from the Bangladesh CAS of February, 2001, and the Indonesia CAS of March 2001, and is provided as an indication of the nature of the treatment of CLS in the World Bank's policy dialogue with these countries.

*Bangladesh: Bangladesh has ratified six of the eight International Labor Organization conventions on core labor standards, but not the two pertaining to child labor. Despite the formal ratification, the Government still restricts freedom of association in export processing zones to attract foreign investment. Discrimination against women and religious minorities in the labor market and extensive trafficking in both women and children primarily for forced prostitution continue, notwithstanding efforts by the Government to address these social problems. The issue of child labor is particularly worrisome because 6.3 million children below 14 years of age, constituting 12% of Bangladesh's labor force, are working and out-of-*

*school. Improvement is, however, expected in the future as a result of the growing support of the Government, civil society and international organizations for efforts to abolish child labor and provide working children with alternatives that would allow them to resume schooling.*

*Indonesia: Sound labor market policies are equally important for raising the economic prospects of the poor, as they are helped by a development strategy that favors a rapidly expanding demand for labor and fosters equitable and just labor conditions (see Box 2.3). Among donors, the ILO has the lead in this area.*

*Box 2.3: Labor Policies in Transition. The broader political changes have opened up labor policies. In 1998, the Government ratified the ILO convention on freedom of association and issued a regulation opening up trade union registration. As a result, new labor unions have sprung up, challenging the only union allowed in the Suharto era. But there are questions about the capacity of business and labor to handle the changes and concerns that implicit alliances between Government, employers and even military and police may persist. Moreover, breakdown of law and order in parts of Indonesia have adversely affected labor relations. Law and order and fair economic relations will require cooperation among Government, employers and employees, and reform of the legal and judicial system, the police and the military. Issues for medium-term consideration involve: (i) further development of the labor relations framework covering the formation of trade unions, collective bargaining, and settlement of industrial disputes; and (ii) regulations governing employment standards, covering issues such as working hours, wage determination, and job security. Longer-term reform will also involve a sustainable system of social protection, including reform of the inefficient government-run Jamsostek social insurance scheme.*

In the case of Bangladesh, the U.S. Executive Director welcomed the frank discussion of child labor and gender equity issues, but also urged bank officials, in cooperation with the ILO, to raise a variety of labor issues in its policy dialogue with the government, including workplace representation, depoliticization of the labor movement, and internal union democracy.

In the case of Indonesia, the U.S. Executive Director likewise expressed support for inclusion of labor issues and noted that the CAS benefited from inclusion of labor groups in the consultation process. The USED also noted that enactment of proposed labor legislation would be an important step in ensuring the expeditious and equitable resolution of individual and collective labor disputes. While the Government subsequently submitted the legislation, the unicameral House of Representatives (DPR) delayed consideration of the bills.

## **B. Asian Development Bank (ADB)**

Per the Asian Development Fund's seventh replenishment agreement (ADF-8), the ADB has formalized its relationship with the ILO based on a Memorandum of Understanding

(MOU) signed in May 2002. Under the MOU, ADB agrees to uphold the ILO's work agenda by encouraging developing member countries (DMCs) to promote employment generating growth and to observe international labor standards, social protection, and gender equity. The MOU covers a range of possible collaborative activities with the ILO in ADB operations, including exchange of relevant information on research and best practices and technical assistance related to labor market assessments, identifying social protection interventions, and other related areas for which the ILO has expertise. In July 2002, a high level mission from the ILO visited the ADB to discuss possible collaboration in mainstreaming CLS in the 2003-2005 ADB country level operations. Specifically, the ILO is regarded as a possible resource for technical assistance in incorporating CLS into the Summary Labor Market Assessment, a required exercise in preparing all new/revised country assistance strategies and programs.

The ADB and the ILO have also continued to work together on a regional technical assistance (RETA) project on best practices on CLS and other labor standards. The findings of the RETA will be used to draft an ADB Handbook on Labor Standards that will provide practical guidelines for ADB staff and development practitioners. The RETA has already produced recommendations that are being followed up through further joint work. The first collaborative project will address the worst forms of child labor. Currently, the ADB and the ILO are exploring the possibility of collaborating on work to address this issue in Bangladesh where child labor is both a cause and consequence of poverty.

Other developments of particular relevance to labor and CLS include:

- As part of the joint work on the RETA, the ADB and the ILO co-hosted a Regional Workshop on CLS at the ADB Headquarters in September 2002, attended by ADB staff and delegations from developing market economies in the region. The ILO also provided consultant services on developing guidelines on Summary Labor Market Assessments which were incorporated in the *ADB Handbook on Poverty and Social Analysis*.
- In September 2001, the ADB Board approved the *ADB Social Protection Strategy* (SPS) based on a framework prepared in 2000. Under the SPS, the ADB is committed to ensure that all relevant ADB interventions should be designed in accordance with CLS and other labor standards; that all ADB-financed suppliers of goods and services, contractors, and consultants will comply with the country's labor legislation and with CLS; and these aspects will be monitored as part of the ADB's regular loan review process.

The SPS committed the ADB to (i) supporting assessments of social protection issues and priorities in the context of country poverty analysis and country strategy and program; and (ii) based on such assessments, developing a selective portfolio in social protection covering four key issues. The issues are: (i) support for establishing social protection systems; (ii) targeting vulnerable population groups and gender issues; (iii) providing support for sound financial management and good governance practices; and (iv) where possible, working

with existing national commissions for social protection to ensure consistency in covering social protection issues across programs.

A detailed progress report of the implementation of the SPS was submitted in October 2002 for the information of the ADB Board. The report indicated that a significant number of ADB loans are designed to help eliminate violations of labor standards, such as improvement in the living conditions of former bonded laborers, reducing child labor by retaining children in school, and promoting occupational health and safety in the workplace. For example, one highway construction project linking Viet Nam and Lao PDR includes appropriate border controls to detect illegal movement of women and children; and the civil works contractors will not be allowed to employ child labor.

- The ADB has consulted with labor unions and other international financial institutions by participating or hosting regional conferences/meetings to discuss relevant issues. In particular, the ADB has kept up a dialogue with the International Confederation of Free Trade Unions – Asian and Pacific Regional Organization (ICFTU). Also, through its NGO Center, the ADB works with NGOs on a number of issues at the regional level, including child protection, disability, and care for the elderly.
- One of the strategic aims of the ADB's interventions in the education sector is to improve and expand access for disadvantaged groups, including ethnic minorities and girls, by providing them greater opportunities for employment upon completion of schooling, and participation in society in general through improved quality of education. Interventions aimed at increasing access and bringing out-of-school children to school reduce the rates of children's participation in the labor force. This is being done through construction of schools in remote areas, curriculum development, provision of textbooks, stipends for the poor and girls, policies for the recruitment, training and retention of teachers to improve quality and ensure greater representation of disadvantaged groups in the teaching force, institutional capacity building, etc. The emphasis on improving the quality of education leads to the greater perceived value of education and increasing enrollments and attendance in schools. A number of ADF-funded primary education projects contribute to reduce child labor.
- The ADB has also created six social protection specialist positions, five of which have been filled and assigned to the operations departments covering the five regions. Between 2000 and 2002, a total of 14 training events on social protection (comprising in-house seminars and in-country or regional workshops) have been tailored to ADB staff needs and DMC clients, focusing on key areas covered under the SPS. An ADB social protection network and website have been set up to assist ADB operations staff. In parallel, the ADB Library has acquired a significant inventory of literature on labor markets and social protection.

### **C. Inter-American Development Bank**

The IDB and the ILO have engaged in active cooperation in a number of areas related to CLS. The Bank is working jointly with the ILO on the development of a technical cooperation project aimed at providing technical assistance to the labor ministries of its member countries. This technical assistance would be delivered through the International Labor Organization project "Fundamental Principles and Rights at Work" in the context of the XII Inter-American Conference of Labor Ministers that operates at the International Labor Organization Office for the Americas in Lima. This group is also receiving funding from the U.S. Department of Labor. Funding is expected to be approved by early 2003. The Bank has formally organized a High Level Working Group with the Inter-American Regional Organization of Workers (ORIT), the most important umbrella union organization operating in Latin America. The next activity of the working group will be the organization of a structured dialogue about the impact of globalization on workers and labor markets.

The IDB has a wide array of programs, both loans and technical assistance operations, which attempt to address labor market issues. The Bank is financing a number of operations related to work force training both with governments and civil society organizations, the biggest of which is an operation in Mexico that finances training activities both at the national and at the state level.

Specific noteworthy activities include the following:

- The Bank has initiated a set of pilot programs to reduce or eliminate child labor. The purpose of supporting these programs is to test out and thoroughly evaluate new methodologies in the region. The IDB also is financing programs that keep children in school (and thus out of the labor market) such as Bolsa Escola (Brazil) and Oportunidades (Mexico). These programs pay families to keep children in school, which together with efforts to provide basic health services to the children, addresses a key economic motivation for child labor.
- The Bank has acted as a conduit for practical exchanges of knowledge and operational experience between its member countries. One example was using Mexican participants, who had developed experience, to help Argentina design a model for establishing a decentralized framework for training. The Bank has also supported important reforms in borrowing countries, often with technical assistance, such as the collaboration with the Chilean government in the design of the recently enacted unemployment insurance system in Chile.

- The Bank has adopted an encompassing approach to combat discrimination, and there is a wider Bank program on discrimination and social inclusion, of which employment discrimination is an important issue. The Bank adopted an action plan in May 2002 for a series of actions (creation of training courses, sponsorship of conferences, increased staff training), research and operations to address social inclusion.
- The social development strategy and the competitiveness strategy, drafted by the Bank, both contain explicit references and discussion for developing a Bank approach to the CLS. This includes consideration in Bank country papers, research and projects. Currently, the overall Bank social and economic review of projects (CESI) has the ability and jurisdiction to screen projects for CLS issues. The Bank has also engaged in the organization of a number of meetings with civil society to discuss the issue of CLS in the context of trade agreements and integration.

In order to improve the visibility of the IDB's labor market focus, the annual Economic and Social Progress Report (IPES 2003), prepared by the Bank's research department, is going to be dedicated to labor market issues. As the IPES is a highly visible Bank-wide collaborative effort, it is expected that this period will show important advances both in research and in policy analysis in areas related to the labor market performance.

#### **D. African Development Bank Group (AfDB)**

There is an existing AfDB/ILO Memorandum of Understanding (MOU), which became effective in 1990. Like the ILO, the AfDB has adopted a new vision, geared more towards the needs of its member countries. To take into account this new focus, the heads of the two institutions, during their discussions at the AfDB headquarters at the end of 1999, called for the negotiation of a new AfDB/ILO Framework Agreement that should take into account the respective new visions of the two organizations.

Consequently, the Bank initiated negotiations in 2000 with ILO officials to conclude a new cooperation agreement that would strengthen collaboration between the two organizations and be more consistent with current best practices and mutual priorities. The Board of Directors has recommended the new AfDB/ILO Framework Agreement for approval by the Board of Governors.

The new Agreement, which is for an indefinite period, provides that the envisaged partnership between the Bank Group and the ILO shall focus on:

- Joint operational activities in regional member countries, including technical assistance activities in line with their respective priorities, skills, and capacities;
- The promotion of networks between regional development institutions through formal and informal mechanisms;

- The development of policies and procedures, particularly in the promotion of employment, international standards and rights at work, gender issues, social promotion and social dialogue;
- Studies and research in areas of ILO competence; and
- Human resources development and training for African member countries including cooperation between the Joint Africa Institute and the ILO's Turin Training Centre.

The on-going dialogue between the Bank and the ILO on CLS is reflected in a multinational project on capacity building for Disability Rehabilitation for Malawi, Zambia and Zimbabwe. This was developed by the Bank in collaboration with the ILO and approved by the Board in October 2000. ILO participation focused particularly on social protection and equality of employment opportunities aspects of the project.

The AfDB's position paper on CLS developed in 1998 still provides the framework for the Bank's approach to CLS. This approach also reflects four difficult factors particularly relevant for the Bank's African member countries: (1) rising unemployment due to decline in manufacturing industries; (2) slow growth or stagnation in GDP, accompanied in many cases by declines in primary commodity prices, leading to fiscal difficulties and redundancies in the public and private sectors; (3) wars and civil strife which have led to the displacement of populations and further disruption of economic activities; and (4) problems of governance. These factors have exacerbated the problems of restrictions on freedom of association; prevalence of child labor (with major implications for education and training); gender discrimination in employment; and incidences of forced or compulsory labor mainly in commercial agricultural production.

The Bank's overall approach with regional member countries on CLS issues is based on discussion, dialogue, consensus building and support. The Bank Group's activities and policy dialogue with regional member countries on poverty reduction, primary education, gender, environment and governance help to address root causes of discrimination, authoritarianism and child labor. These are some of the priority areas of the African Development Fund's eighth and ninth replenishments (ADF VIII and ADF IX).

Elements of the Bank's strategy for implementing its CLS strategy include the sensitization and training of Bank staff; the inclusion of CLS issues in Country Strategy Papers; the incorporation of CLS issues, where relevant, in new and revised policies; and the dissemination of relevant information through workshops, seminars and conferences:

- The new Country Strategy Papers (CSPs) developed since 1999 contain a section, as a standard component, which focuses on ratification and implementation of international labor conventions, collective bargaining rights, gender and discrimination issues in work, and child labor. The focus is on

assessing the degree of borrower compliance with CLS as defined by the ILO, and whether the existing capacity to enforce the standards is adequate.

- Relevant Bank Policies and Guidelines developed or approved since 1999 contain sections on CLS. Examples are:
  - *Integrated Water Resources Management Policy*, which was approved by the Board in April 2000, includes issues relating to freedom of association and collective bargaining, the relationship between water availability and health/environment of workers, and the impact of water projects on child education;
  - *Education Policy*, in whose preparation the ILO took an active role by contributing sections and participating in workshops which reviewed the draft Policy;
  - *Policy on Good Governance*, which prioritizes freedom of association and organization and respect for labor standards and regulations;
  - *Guidelines on Project Design and Economic Analysis*, which provides concrete ways of integrating gender and CLS issues in project design.

## **E. European Bank for Reconstruction and Development (EBRD)**

The mandate of the EBRD differs somewhat from that of the other MDBs in two important respects. First, lending is targeted toward providing transitional rather than development assistance. The Bank's mandate is to foster the transition from centrally planned economies in Eastern Europe and the former Soviet Union to open-market-oriented economies. Second, the EBRD focuses on financing projects, as opposed to structural or sectoral reform programs.

In 1992, the EBRD and the ILO entered into an agreement for cooperation providing for (i) an exchange of information and documents; (ii) mutual consultation; (iii) attendance at Annual and other meetings; and (iv) technical cooperation between the two organizations. The agreement was ratified by the Bank's Board of Governors as Resolution No. 28, dated 10 July 1992.

Since 1999, the EBRD has included a review of labor issues in its Country Strategy papers. As is the case in other institutions, the U.S. Executive Director works to ensure that relevant labor issues are consistently reviewed in all Country Strategies.

At the project level, health and safety due diligence are an integral part of the environmental due diligence conducted on all projects. The extent of labor due diligence depends on the context of the project. For example, the EBRD examines labor issues where a project is likely to lead to a significant reduction of the work force,

e.g. in connection with the preparation of privatizations, large-scale equity investments, or on corporate loans to enterprises with large numbers of employees. In such cases, the social impacts associated with work force reductions are assessed as part of project due diligence, and where appropriate, the EBRD may mobilize complementary donor grant funds to co-finance mitigation measures.

In addition, all the financial intermediaries that the EBRD provides financing to are required not to finance any activities that violate core labor standards.

The EBRD focuses in particular on ensuring the health and safety of workers in the projects that it supports. Such requirements are usually part of an Environmental Action Plan (EAP) that is completed for a project. For example, as part of the EBRD's pre-privatisation restructuring loan to SNP Petrom, a large Romanian petrochemical company, an EAP was developed for two of the company's refineries. Eight of the 51 agreed actions in the EAP deal with occupational health and safety improvements, emergency response plans, and health and safety training. Specific time-bound actions required include:

- Development of an objective-oriented, health, safety, and environment training program, including identification of training centers capable to implement such a program;
- Holding emergency response/oil spill response training and drills;
- Provision of adequate personal protective equipment;
- Provision of adequate safety and warning signs;
- Provision of safety literature to employees such as safety rules and regulations, safe procedures for equipment operation, etc.;
- Inspection of the administration buildings and general facilities to verify compliance with sanitary and hygienic norms; and
- Inspection of sites for compliance with fire safety rules.

Following the detailed mitigation actions prescribed in an EAP is a covenant of the EBRD's loans.

## **F. International Monetary Fund (IMF)**

The IMF and the ILO continue to cooperate at the field level in the review of labor codes, wage policies, and social protection mechanisms, and the two institutions exchange drafts of their annual reports for comment. Additionally, the ILO meets with senior management and board members of the Fund every two years to further enhance cooperation, and the ILO regularly sends observers to spring and fall meetings of the International Monetary and Financial Committee (IMFC).

The Treasury Department, in coordination with the Department of Labor and the State Department, regularly reviews IMF Article IV surveillance reports, program proposals, and program reviews for consistency with core labor standards and related labor issues. In reviewing IMF programs, Treasury believes it important to protect and, where appropriate, to advance CLS and minimum labor standards. At the same time, the

Treasury Department recognizes that the IMF's core mission is to provide balance of payments and macro-economic policy support and guidance.

There is some reluctance by many member countries to address CLS issues in the IMF, particularly given widely supported efforts underway to focus IMF conditionality more narrowly. However, the USED continues to raise critical labor issues in Board discussions on a regular basis. For example, in a Board statement in January 2001, the U.S. expressed concern that proposed reforms to the Argentina labor code could have significant effects on the structure and conduct of collective bargaining and the future of labor-management relations. The USED urged IMF staff to report on the new labor law in greater detail and to ensure its consistency with key ILO standards. In a March 2001 Board discussion on Peru, the USED urged the Peruvian government to ensure that its laws on collective bargaining and the right to strike are consistent with ILO standards. In a July 2001 Board discussion on China, the USED encouraged Chinese authorities to support core labor standards, including freedom of association and collective bargaining and welcomed movement by the government to phase out restrictive policies on labor mobility. In a statement to the Board in February 2002, the USED noted the efforts of the Thailand government to improve labor standards and welcomed authorities' restoration of trade union rights to employees of state enterprises, but expressed concern over the apparent failure to protect workers who attempt to unionize. In a review of the Dominican Republic's Article IV Consultation in June 2002, the USED encouraged authorities to fully implement laws protecting the right of workers to freely engage in collective bargaining and organizational activities. Most recently, during a Board review in September 2002, the USED welcomed the Mexican government's intention to undertake labor market reforms and encouraged authorities to be respectful of core international labor standards.

While it is difficult to attribute outcomes to specific USED interventions, it is worth noting that positive actions have occurred in some of the countries mentioned above. In the case of Argentina, the ILO's Committee of Experts has noted with satisfaction various measures the Government had taken in 2001 to provide trade union associations merely registered with rights and benefits similar to those of unions legally recognized. In the case of Peru, Congress passed a law in December 2002 that addressed some of the ILO's primary objections to the 1992 labor law. The new law allows apprentices to join unions, reduces the number of individuals required to form a union, recognizes the right to strike, and allows for collective bargaining by sector. In Thailand, the Central Labor Court ruled in September 2002 that 21 union members fired by a television station be reinstated to their former positions, mirroring recommendations made in March by the ILO's Committee on Freedom of Association.<sup>5</sup>

#### **IV. LABOR ISSUES AND THE BROADER DEVELOPMENT AGENDA**

The Administration's broader development agenda focuses on two goals: increasing economic growth and increasing economic stability. A central theme of the pro-growth policy has been productivity growth through job creation in the private sector. Higher

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<sup>5</sup> See [U.S. Department of State 2002 Human Rights Report](#) for additional details.

productivity is essential for rising living standards and reduction in poverty. Put another way, the labor force will benefit from increased productivity, which will lead to higher economic growth, more jobs, and greater individual well-being.

The Treasury Department believes the MDBs are important instruments in helping to raise economic growth and prosperity around the world. But while the MDBs have the strong support of the United States, we also believe that the effectiveness of these institutions in enhancing sustainable economic growth and development, and making a difference in the lives of the people, can be substantially improved.

We are convinced that the MDBs can do a better job in spurring the economic growth needed to combat poverty and improve people's lives if they place greater attention on two aspects of the development agenda that underlie most success stories: (1) the factors that enable people and countries to become more productive; and (2) better measuring, monitoring and managing for development results. We have also worked to achieve an increase in the proportion of assistance to the poorest countries delivered in the form of grants rather than loans.

*Productivity Growth:* Treasury believes the MDBs could be more effective in helping countries achieve improved living standards if they prioritized their efforts to address the basic causes of low productivity -- such as poor policies, low business investment, and inadequate education and health care -- that are now holding countries and people back. Without productivity-led economic growth that creates widespread employment, progress on poverty reduction and CLS will be elusive.

The need for sound policies is fundamental. This includes establishing the basis for sustainable domestic economic growth. It also encompasses outward-oriented engagement with global markets and investment. In every country there is no substitute for honest leadership committed to good and publicly accountable economic management. Progress in meeting the economic and social goals of the Millennium Declaration is heavily contingent on improving the quality and productivity of resource use. We therefore have successfully encouraged stepped up efforts by the World Bank (and the IMF) to strengthen public expenditure tracking and fiduciary management and are urging that these efforts be intensified.

Treasury also wants to accord priority to human resource development, including investments needed to improve delivery systems for health, education, water, and sanitation. These social sector investments increase individual productivity and have major spillover benefits economy-wide. Conversely, the absence of basic services, such as clean water and sanitation, makes the prospects for economic progress more remote.

We believe that this development agenda is important to improving the economic and social well being of individual workers and their families and that it complements U.S. efforts to promote CLS.

## **APPENDIX 1: Text of Law**

### **P.L. 103-306, SECTION 526 (e)**

Section 526 (e) of P.L. 103-306, the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995, passed on August 23, 1994, as amended, states:

(a) The Secretary of the Treasury shall direct the United States Executive Directors of the international financial institutions (as defined in Section 1701(c)(2) [of the International Financial Institutions Act]) to use the voice and vote of the United States to urge the respective institution:

(1) to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights (within the meaning of Section 507(4) of the Trade Act of 1974) and to include the status of such rights as an integral part of the institution's policy dialogue with each borrowing country;

(2) in developing the policies referred to in paragraph (1), to use the relevant conventions of the International Labor Organization, which have set forth, among other things, the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, and certain minimum labor standards that take into account differences in development levels among nations including a minimum age for the employment of children, acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health; and

(3) to establish formal procedures to screen projects and programs funded by the institution for any negative impact in a borrowing country on the rights referred to in paragraph (1).

(b) The Secretary of the Treasury shall submit to the committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate by the end of each fiscal year a report on the extent to which each borrowing country guarantees internationally recognized worker rights to its labor force and/or progress toward achieving each of the goals described in subsection (a) of this section.

## APPENDIX 2: The Core Labor Standards

The internationally recognized core labor standards and their corresponding ILO conventions are:

- **Freedom of Association (ILO Convention 87)** - The right, freely exercised, of workers and employers, without distinction, to organize for furthering and defending their interests.
- **Right to Organize and Collective Bargaining (ILO Convention 98)** - Protection for workers who are exercising the right to organize; non-interference between workers' and employers' organizations; promotion of voluntary collective bargaining.
- **Forced Labor (ILO Conventions 29 and 105)** - Suppression of forced labor for certain purposes (political coercion; labor mobilization for economic development; labor discipline; punishment for participating in strikes); prison labor permitted under state supervision and in accordance with due process of law.
- **Minimum Age (ILO Conventions 138 and 182)** - Minimum age for employment not less than the age of completion of compulsory education (normally not less than 15 years). Convention 182, the Worst Forms of Child Labour Convention, was adopted at the ILO's General Conference in 1999 went into effect in November 1999. This convention prohibits the employment of children in especially abusive situations such as prostitution, pornography, armed conflict, and bonded labor.
- **Equality of Opportunity and Treatment (ILO Conventions 100 and 111)** - Equal remuneration for men and women for work of equal value and equality of opportunity and treatment in respect of employment and occupation.

There are five core labor standards. Freedom of association and the right to organize and bargain collectively are sometimes combined under one rubric for a total of four, most recently in the ILO's Declaration on Fundamental Principles and Rights at Work. Note also that there are seven ILO conventions that are relevant. Freedom of association (Convention 87) has been interpreted to mean the right of all citizens to associate in defense of their rights, free from government interference. Convention 98 (right to organize and bargain collectively) obligates the government parties to protect workers from reprisal by employers and to promote collective bargaining. As workers associate for the purpose of collective bargaining with their employers, the two are often combined.

### APPENDIX 3: Extracts from the IDA-13 Agreement (July 25, 2002)

*Deputies stressed that forging development partnerships should start at the country level, with government commitment and ownership of the development program and strong participation of civil society, the private sector, **labor organizations** and other stakeholders, and especially representatives of poor people. Deputies observed that such consultation needs to complement countries' democratic political processes, including parliamentary processes. In that connection, they urged IDA to work with other donors to help build countries' capacity to make their own policy and program processes more participatory and inclusive and to build institutions for implementation that represent diverse interests. At the same time, IDA and other donors should continue to encourage adoption of sound economic and social policies in country programs. Deputies encouraged IDA to increase the use of sector-wide approaches (SWAs) with a view towards improving the integration and effectiveness of donor financing.*

Paragraph 11

*Within this framework of broad-based and equitable growth, public expenditures should focus on investments in people, especially through expanding education, health and basic infrastructure and through curbing non-productive uses, including excessive military expenditures. Efforts should be made to increase the transparency and accountability of the public expenditure management system. Structural reforms are essential not only to increase efficiency and expand markets but also to build up the assets of the poor through access to land, credit and information. **Well functioning labor markets, including the implementation of core labor standards, are also key to expanding job opportunities and increasing real wages.** In addition, as pressures on land, water and other natural resources intensify, environmental sustainability must become a stronger focus of national policies, both to protect the natural assets on which long-term growth depends and to reduce the vulnerability of poor people to environmental degradation and to natural disasters.*

Paragraph 33

*Social Protection. Deputies noted that the World Bank's Social Protection Sector Strategy links social protection activities — reducing the vulnerability of poor men and women and improving their ability to cope with adverse economic shocks, natural disasters, ill health and disability — to the broader agenda of poverty reduction. **They emphasized the contributions to poverty reduction that could be made by eliminating harmful child labor, making labor markets more equitable and inclusive, implementing legal reforms to protect poor people's right to assets (e.g., women's property rights), and strengthening community-based coping mechanisms, including through social funds. Deputies encouraged IDA to strengthen its consultations and collaboration with international organizations, such as the International Labor Organization (ILO), in its work with countries on labor issues.***

Paragraph 41

*Highlight in the CAS the results of core analytical work as part of the justification for the proposed level and composition of IDA's financial and advisory assistance. This core analytical work comprises:*

- *Social, Structural and Sectoral Analysis. This analysis comprises a Poverty Assessment (PA), or equivalent poverty analysis, which looks at the dimensions of poverty and its determinants, including the analysis of poverty and social impacts of key reforms that have been undertaken or are being contemplated; and a Country Economic Memorandum (CEM), or equivalent economic analysis, which focuses on structural, sectoral and institutional reform priorities for sustainable growth and poverty reduction, including the analysis of the social and environmental impacts of these reforms. **These assessments also include the analysis of gender equality and labor markets (including core labor standards)** and provide recommendations on the policies and institutions identified as particularly weak in the CPIA. They can be prepared by IDA, other donors or the country itself and can be presented as an integrative report on social, structural and key sectoral policies or as separate ESW products.*

*Annex III: Recommendations/Actions*