

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



A Report to Congress

*consistent with*

Section 526(e) of the  
Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995,  
as amended

United States Department of the Treasury  
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# FY2010 REPORT TO CONGRESS ON LABOR ISSUES AND THE INTERNATIONAL FINANCIAL INSTITUTIONS

## EXECUTIVE SUMMARY

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The Treasury Department presents this report consistent with section 526(e) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995 (Pub. L. No. 103-306), as amended, which directs Treasury to urge the establishment of a policies within the International Financial Institutions (IFIs)<sup>1</sup> 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.

Treasury's strategy is to advance the integration of the core labor standards<sup>2</sup> (CLS) in the IFIs' development agenda. To this end, Treasury encourages enhanced cooperation among the IFIs and the International Labor Organization (ILO) 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:**

- During FY2010, the IFIs continued to work closely with the ILO, with particular focus on the impact of the global financial crisis on workers and worker rights.
- All multilateral development bank (MDB) operations manuals were revised to clarify and expand the requirements with respect to CLS.
- With the adoption by the International Finance Corporation (IFC) in 2010 of the requirement that borrowing members comply with all CLS and certain other workplace practices, all MDBs now include CLS requirements in their standard bidding documents.

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<sup>1</sup> Refers to the World Bank Group (i.e., International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency), the African Development Bank, the African Development Fund, the Asian Development Bank, the Asian Development Fund, the Inter-American Development Bank, the European Bank for Reconstruction and Development and the International Monetary Fund

<sup>2</sup> For the purposes of this report, the terms "internationally recognized workers' rights" and "core labor standards" are used interchangeably.

# **FY2010 REPORT TO CONGRESS ON LABOR ISSUES AND THE INTERNATIONAL FINANCIAL INSTITUTIONS**

## **I. INTRODUCTION**

This report is presented pursuant to section 526(e) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995 (Pub. L. No. 103-306), as amended (hereinafter referred to as the Act).<sup>3</sup> The Act provides that the Department of the Treasury shall direct the U.S. Executive Directors (USEDs) of the International Financial Institutions (IFIs) to use the voice and vote of the United States to urge the IFIs to: (1) 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; (2) use the relevant conventions of the International Labor Organization (ILO) in the development of these policies; and, (3) 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 by the end of each fiscal year to Congress on 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 Treasury follows to promote the systematic integration of internationally recognized worker rights into IFI operations and analytical work; and (b) describe progress in IFI policies and practices toward this end.

The report covers the period from October 1, 2009, through September 30, 2010.

### **Scope of Report**

The Act requires that Treasury urge the respective institutions to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights and to develop policies based upon the relevant conventions of the ILO (Appendix 2), usually referred to in the United States as core labor standards (CLS). 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, and the World Trade Organization. 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 take into account differences in development levels among nations, including minimum age for the employment of children, acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

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<sup>3</sup> For the text of the law, see Appendix 1.

In developing policies and engaging on labor issues at the IFIs, Treasury focuses primarily on CLS and also considers minimum labor standards outlined in the legislation and other labor issues often associated with IFI programs. This report also includes information on 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. The State Department's *Country Reports on Human Rights Practices*, which is issued annually, fulfills this requirement. That 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 country or territory that the Department of State considers to merit inclusion in the report.

## II. TREASURY POLICIES AND PRACTICES

The promotion of enhanced cooperation among the IFIs and the ILO remains at the core of Treasury's strategy to promote CLS. Treasury works with the IFIs to establish best practices on CLS while monitoring and taking appropriate action on individual lending and non-lending programs and projects.

With regard to individual lending and non-lending operations, Treasury has internal guidelines for engaging on CLS issues at the multilateral development banks (MDBs) and the International Monetary Fund (IMF). These guidelines inform the development of internal Treasury positions on CLS issues and the U.S. Executive Directors (USEDs) use these guidelines for their interventions at the IFIs' Executive Boards and with relevant stakeholders.

Working with each USED office, Treasury reviews all MDB loans and grants to ensure that proposed projects and programs incorporate CLS where appropriate. In addition, Treasury and the USED offices review all MDB Country Assistance Strategies (CASs) or Country Partnership Strategies (CPSs) to ensure that CLS issues are addressed. MDBs use CASs and CPSs to express their comprehensive strategic and policy approach to individual borrowing member countries. Finally, Treasury reviews IMF Article IV economic surveillance reports, program proposals, and program reviews for consistency with CLS.

Trafficking in persons presents a particularly serious labor issue. Section 110, as amended, of the Trafficking Victims Protection Act of 2000 (22 U.S.C. 7107(d)) requires the United States to vote against assistance to countries that do not meet the minimum standards for elimination of trafficking in persons. "Severe forms of trafficking in persons" is defined as: "(a) sex trafficking in which a commercial sex act is induced by force, fraud, or coercion, or in which the person induced to perform such act has not attained 18 years of age; or (b) the recruitment, harboring, transportation, provision, or obtaining of a person for labor or services, through the use of force, fraud or coercion for the purpose of subjection to involuntary servitude, peonage, debt bondage, or slavery."

Reducing trafficking in persons (22 U.S.C. 7102(8)) addresses the two CLS relating to forced labor and child labor.

During FY2010, countries subject to this voting mandate were Burma, Cuba, Eritrea, Fiji, Iran, North Korea, Syria, and Zimbabwe. Between October 1, 2009 and September 30, 2010, the United States voted seven times against MDB financing of projects or programs for countries subject to section 110. Treasury will continue to emphasize the importance of the CLS relating to forced and child labor in its reviews of country strategies, programs and projects.

### III. IFI POLICIES AND PRACTICES

The text below summarizes each IFI's cooperation with the ILO and relevant details on that IFI's actions to incorporate CLS into its policies and programs.

#### A. Cross-cutting Agreement

One major development affecting all the MDBs is that following a June 2008 meeting of the MDB Heads of Procurement, the MDBs agreed to include in their standard bidding documents language to uphold CLS related to addressing workers' rights to organize, and requiring nondiscrimination and equal opportunity practices in all large works they fund. These changes came into effect via revised standard bidding documents that the MDBs promulgated in 2010. Prior to this joint action, only the World Bank Group included such commitments in its procurement requirements.

#### B. World Bank Group

The World Bank Group screens development policies and operations for issues relating to CLS during its project development phase. In 2010, the World Bank Group's private sector lending arm, the International Finance Corporation (IFC), adopted a new project preparation standard that requires its borrowing members to comply with all CLS and certain other workplace practices.

The Bank regularly engages with the ILO. The World Bank holds quarterly meetings with ILO technical staff to share relevant research findings in the area of employment, growth, and poverty reduction. The World Bank and the ILO jointly host annual seminar series on these issues with a number of development agencies. During the reporting period, the World Bank Group participated in the following specific initiatives with the ILO:

- The Joint World Bank–ILO JobsWatch Initiative: The Bank has worked together with the ILO on an assessment of the policies (including the enforcement of labor standards) that were the most effective during the global financial crisis. Senior representatives from the ILO and the World Bank met in early 2010 to present and discuss preliminary results of ongoing work and agreed to establish three ILO-WB working groups. The objectives of the joint working groups are to better understand

the countries and types of workers that were most severely affected by the economic crisis, and the policies that have been adopted to combat the crisis.

- Youth Employment Network (YEN): This group, hosted by the ILO and jointly supported by the Bank and the UN, addresses the need to find gainful employment for youth. The Bank has produced a global inventory of Youth Employment Inventories (YEI), which is currently entering phase II with a joint YEN-WB-ILO-Inter-American Development Bank youth employment database and interactive website. Through the "Promoting Youth Employment and Employability Initiative," the YEN supported grants to local NGOs to promote youth employment in the West Africa region. In 2010, the Bank granted \$300,000 for country-level YEI, web-based marketplaces for youth employment organizations, and technical assistance to NGOs to promote more rigorous impact evaluation.
- Understanding Children's Work (UCW): This joint center, supported by the Bank, the ILO, and UNICEF, has developed innovative technical tools to measure, monitor, and analyze child labor. Furthermore, it has become the preeminent source for data and data collection methodologies on child labor. Through the "Promoting Youth Employment and Employability Initiative," UCW performed analytical work on child labor and youth employment and country-level research on youth labor market outcomes in selected countries of the Middle East and Sub-Saharan Africa.

## Textbox 1: Further Reform of the World Bank Group’s “Doing Business” Report

The Supplemental Appropriations Act of 2009 (22 USC 262p-9) directed the Secretary of the Treasury to use the U.S. voice and vote to promote the World Bank Group’s suspension of the use of two labor indicators in the World Bank Group’s annual Doing Business Report—the Employing Workers’ Index (EWI) and the Paying Taxes Indicator (PTI). The law also sought reform in the Doing Business Report’s treatment of certain labor practices, which the Report characterized negatively as costs and rigidities, despite the fact that many such practices are consistent with ILO Conventions and internationally-recognized worker rights. In response, the World Bank convened a consultative group with representatives from the ILO, trade unions, business, academia, and legal experts.

In 2010, the World Bank took significant steps to strengthen its Doing Business Report in this regard:

- EWI: The World Bank eliminated the EWI from its 2011 Doing Business rankings.
- PTI: The World Bank is discussing the future of the Paying Taxes Indicator with external stakeholders via the International Tax Dialogue and the consultative group. The United States has recommended that the indicator should be reformulated to include only measures of the regulatory burden, such as total cost of compliance.
- Action on certain labor practices: The consultative group met to discuss the establishment of a new Worker Protection Indicator, examine the Paying Taxes Indicator, and develop a pilot Child Labor Protection Indicator. The group expects to issue a report in 2011.

In addition, the 2011 Doing Business Report includes for the first time a minimum wage indicator that prevents any country from receiving the highest possible score if that country:

- Has no minimum wage,
- If the minimum wage is not enforced in practice,
- If there is only a customary minimum wage, or
- If the minimum wage applies only to the public sector.

The new but unranked indicator also rewards countries that limit the maximum number of working days per week or in which workers receive paid annual leave. Including these factors is an attempt to balance worker protection against employment restrictions.

## C. Asian Development Bank

In the Asian Development Bank (AsDB), the Regional and Sustainable Development Department (RSDD) is the institutional focal point that deals with labor issues. In addition, Social Development Specialists are housed in the regional departments to ensure that CLS are addressed in project design, implementation, and monitoring.

Since October 2009, the AsDB has incorporated the following activities related to CLS and other labor issues into projects, program, and country strategies:

- At the project level, an initial poverty and social analysis (IPSA) is required for all loan and grant-based investment projects and programs. The IPSA must identify social issues including labor concerns (e.g., employment opportunities, CLS, and labor retrenchment).
- At the country level, discussions of labor issues and the consultative process with stakeholders are included in updates on country poverty and social assessments.

The AsDB is strengthening its work on social protection, geared toward reducing social risk and vulnerability. For example, the AsDB is undertaking a comprehensive update of its Social Protection Index, that analyzes the social protection system in more than 30 countries in Asia and the Pacific. Among the types of programs to be studied are unemployment insurance and major job-creation programs.

On May 13, 2010, the AsDB and the ILO agreed to pursue a detailed program of collaboration on social protection, education and skills development, statistics and labor market information, inclusive job creation strategies, and HIV/AIDS in the workplace.

The AsDB maintains an ongoing dialogue with international workers' organizations, including the International Trade Union Confederation (ITUC), Public Services International (PSI), and the Asian Labor Network on International Financial Institutions (ALNI). Selected examples of discussions that have taken place between the AsDB and labor unions over the past year include:

- On April 21-22, 2010, a PSI delegation participated in the regional conference on social protection at AsDB headquarters. The delegation also met with AsDB's South Asia Regional Department to exchange information on the impact on workers of energy sector reform in Madhya Pradesh, India.
- The RSDD worked with PSI to organize a panel discussion on labor issues at AsDB's 43<sup>rd</sup> Annual Meeting in Tashkent, Uzbekistan, May 1-4, 2010.
- PSI and AsDB's Southeast Asia Regional Department held discussions in March and October 2010 on a Philippine water sector project that may receive ADB financing. PSI also met with staff from the AsDB's Water Community of Practice, an internal AsDB group of like-minded, interacting people who ensure more effective creation

and sharing of knowledge in their domain, to discuss cooperation in knowledge sharing.

A preliminary desk review of poverty and social assessment at the project level demonstrated that about one quarter of AsDB-financed projects (road, energy, urban, water and sanitation) approved in 2009 identified CLS as one of the social risks. The AsDB addresses CLS risk through the inclusion of loan covenants in the loan agreements, and the incorporation of standard CLS language in the institution's bidding documentation. An example of the use of CLS covenants is presented in Textbox 2.

**Textbox 2: People's Republic of China Xinjiang Urban and Environmental Improvement Project – CLS Assurances**

The Xinjiang Uygur Autonomous Region government (XUARG) project is a good example of the incorporation of CLS into AsDB lending. The project has two components: (a) \$800,000 technical assistance grant approved in August 2009 and (b) a proposed \$100 million loan negotiated during 2010 and scheduled for board approval in 2011. Under the covenants of the negotiated loan agreement, XUARG requires implementing agencies (IAs) to ensure that contractors comply with all applicable labor laws and not employ child labor. The requirements would be tracked by the Project Performance Management System (PPMS) and by external monitoring reports of the implementation of the Resettlement Plan and Ethnic Minority Development Plan.

Specifically, the IAs must ensure that (a) contractors not employ child labor; and (b) contractors incorporate occupational safety norms, disseminate information and training on HIV and sexually transmitted diseases prevention, and observe protocols concerning acceptable behavior toward the local population.

In addition to these requirements, the AsDB loan has allowed the XUARG to set targets for each IA for employment targets for the poor and ethnic minorities. The project also requires on-the-job training, use of local unskilled labor, and the monitoring of project impact on poverty.

Finally, the project includes a number of steps to improve the livelihoods of women in Xinjiang. Specifically, the AsDB will require IAs to take all reasonable and necessary steps to encourage women living in the project areas to participate in the design, planning, implementation, and evaluation of the project, and to maximize employment of women. The AsDB and XUARG will monitor the project's impacts on women during project implementation and report them in the PPMS.

## D. Inter-American Development Bank

The Inter-American Development Bank's (IDB) Social Sector Department, and within it, the Labor Unit (LMK), continued to build a strong portfolio of financial and non-financial products (i.e., insurance and labor intermediation) that would improve workers' skills and earnings possibilities, and mitigate the risk of old age poverty and job loss. The LMK is currently overseeing the execution of eight loans.

### **Textbox 3: Bolivia's Apoyo al Empleo Project**

This \$20 million project approved in September 2010 supports a system of training grants under which workers can get up to three months of subsidized on-the-job training. The program also finances an increase in coverage of national labor data systems, which will strengthen the capacity of the Labor Ministry to evaluate the conditions of the local labor force and the impact of Ministry interventions.

The LMK unit hosted a labor conference on Social Insurance in Mexico City, in May 2010, jointly with the World Bank and organized the first regional dialogue with Labor Ministries in April 2010.

Starting August 2010, the IDB has worked with the World Bank to develop an agenda to expand the coverage of Latin American social insurance systems (pensions, health, and unemployment insurance) in a sustainable way. Both institutions commissioned technical studies from leading experts on the issue, and the findings of the papers have been presented to high level labor authorities of all IDB member countries.

The IDB continued to develop a large portfolio of technical assistance in the labor area. During 2010, the IDB approved an operation to improve pension literacy, and with it, the levels of coverage of pension systems in Latin America. The IDB also developed a project to build a common and comparable multi-year social protection survey that will guide the design, monitoring, and evaluation of social policy in the region, with particular emphasis on social insurance.

## E. African Development Bank Group

Since Treasury's last report to Congress, the African Development Bank (AfDB) has continued to work on expanded inclusion of CLS in its policies and operations. In 2009, the AfDB established a Poverty Reduction and Social Protection Division (PRSPD) within the Human Development Department to support targeted pro-poor growth and social protection investments and carry out more evidence-based analytical work on social protection issues (including labor issues). The PRSPD is currently in the process of formulating an Operational Strategy for its social protection interventions.

PRSPD initiated a set of studies that set the stage for future AfDB and national investments to address the needs of Africa's changing labor market. These studies and their accompanying projects will work to boost local employment, industrial development and economic growth in these countries, in light of the recent global financial crisis and food price crisis.

In March 2010, President Kaberuka participated in a high level ILO meeting on the Global Jobs Pact. Also in 2010, the AfDB contracted the ILO to implement the Capacity Development component of the Liberia Labor-Based Public Works Project. Labor issues, especially CLS issues, will be covered in the training that will be provided to local contractors and communities in the use of labor-based maintenance methods.

Two examples of other labor-related activities carried out by the AfDB over the reporting period include:

- The adoption of a human development pillar as part of a North Africa Regional Integration Strategy. The pillar will support assessment of labor issues, labor market structures and potential for reforms across the sub-region, including issues related to migration.
- The \$7.5 million Angola Institutional Capacity Support Project for Poverty Reduction Project, which has a clear focus on improving labor market structures and information systems, as well as on assessing national employment policies and regulatory frameworks to better understand the labor requirements need for increased private sector investment.

## F. European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) continued to mainstream CLS issues into its policies and operations. The EBRD requires projects it finances to meet applicable provisions of the relevant ILO conventions, as well as all applicable national laws and standards on employment. Since October 2009, EBRD country strategies include a statement on occupational health and safety issues, and an occupational health and safety expert joined the Environment and Sustainability Department (ESD) in November 2009. In January 2010, the EBRD Board of Directors officially endorsed the Bank's Gender Action Plan and appointed a new Gender Team to oversee the implementation of the Gender Action Plan. The EBRD also increased the depth of tools on gender issues in the ESD's project appraisal toolkit.

The EBRD retained external labor experts for advisory services throughout the reporting period. In addition, the EBRD's Environmental and Social Advisory Council includes a labor expert (a representative from the Building and Woodworkers International Trade Union), as well as a social development expert.

Also during 2010, nominee directors that serve as EBRD representatives on boards of EBRD-investee companies were trained on the Bank's environmental and social requirements, including labor standards and gender equality.

#### **Textbox 4: Technical Cooperation to Cushion the Impact of Redundancies**

With the privatization of oil wells by formerly operated by state-owned AlbPetrol likely to result in 5,000 redundancies, the EBRD provided technical assistance to the government of Albania and other stakeholders to manage collective redundancies in accordance with best international practices. After an analysis of the national legislative requirements, a toolkit was prepared: (a) to assist both the Ministry and other government institutions supervise and advise on good practices in implementing large scale redundancies and (b) to advise private companies who were linked to privatizations that entailed redundancies. The toolkit guidance covered issues such as non-discrimination, legal national requirement, and the mapping of labor market service providers.

The EBRD is also developing a generic Redundancy Toolkit that will provide information and guidance on collective redundancy for three types of clients:

- State-owned companies reducing their headcount, including prior to a transfer or concession,
- Private companies reducing their headcount due to a change of ownership, and
- Where there is a change of ownership, such as a privatization and the new operator is a private sector company.

The toolkits will detail practical steps that state-owned or privately owned enterprises can follow in order to ensure compliance with national labor law, collectively agreed provisions covering collective redundancy, and the EBRD's Human Resources Policy Performance Requirement 2 (PR2<sup>4</sup>), as well as contain various best practice proposals to mitigate the social impacts of redundancies on workers and their communities.

The EBRD maintains a constructive relationship with the ILO through an ongoing cooperation agreement. During the reporting period, the President of the EBRD and ILO Secretary General met at the Davos Economic Forum. The EBRD also participated in a number of labor-related meetings and consultations including:

- Development Financial Institutions' Social Experts meeting hosted by FMO.
- The Decent Work and Labor Standards Forum in London in March 2010.

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<sup>4</sup> PR2 summarizes the EBRD's specific requirements that the working conditions in the projects that it finances are in compliance with national labor, anti-discrimination, and health and safety laws and regulations, as well as international good practice in these areas.

- The Workshop on Strategies to Promote Decent Work and Health and Safety through Procurement, hosted by the Building and Woodworkers International in Sarajevo in June 2010.
- Consultation with the IFC on the revision of Performance Standard 2 (Labor) and other IFC Performance Standards.
- Consultation with NGOs at the 2010 EBRD Annual Meeting on Gender Equality at the Workplace.
- Meeting with the ILO and WHO in March 2010 on occupational health and safety issues.

## G. International Monetary Fund

In the context of the global response to the financial crisis, the IMF and ILO management and staff have intensified interactions on issues such as employment creation, wage policy, social protection mechanisms, and the implications of globalization. The IMF-ILO partnership is being strengthened by working together on two core areas:

- the concept of a social protection floor for people living in poverty and vulnerable situations, within the context of a medium- to long-term framework of sustainable macroeconomic policies and strategies for development; and,
- policies that promote job-creating growth.

### **The IMF's Social Protection Role during the Recent Crisis**

During the recent global crisis, the IMF emphasized the need to preserve social spending and protect social programs even as countries took measures to maintain macroeconomic stability. The IMF was particularly concerned that the global financial crisis would increase poverty rates in LICs, which could, in turn, spark an upsurge in child labor. The IMF responded to this challenge by sharply increasing resources for LICs through a broad package of reforms approved in 2009. In particular, recent IMF reforms included:

- A doubling of the Fund's medium-term concessional lending capacity for LICs, allowing the Fund to dramatically expand its lending capacity during the crisis. New Fund commitments for LICs totaled \$5 billion, or four times the historical average, from 2009 through mid-2010.
- A doubling of access limits for LICs under the Poverty Reduction Growth Trust, making more money available to individual countries. The IMF also reformed facilities available for LICs to improve flexibility and tailor programs to individual LIC needs.
- Streamlining of conditionality in IMF programs to focus on core objectives, in particular for structural reforms. IMF programs in all countries will no longer contain binding structural conditionality, meaning countries will no longer need to seek a waiver if structural reforms are not completed by a specific date. In addition, the IMF

will not impose conditions limiting health and education spending. On the contrary, about one-third of Fund-supported programs in LICs have targets to preserve or increase social spending. Subsidies and other safety net programs aimed at the poor are supported by the IMF in many countries.

- Coupling financial assistance with programs that, in a majority of LICs, include higher levels of government spending, larger budget deficits, looser monetary policy, and higher inflation targets.
- In 2010, the IMF created the Post-Catastrophe Debt Relief (PCDR) Trust to provide debt relief for very poor countries hit by the most catastrophic of natural disasters. The PCDR financed the elimination of Haiti's entire debt stock to the IMF (about \$268 million) following the 2010 earthquake.

LICs fared better in the recent crisis than previously expected, in large part as the result of stronger macroeconomic “buffers” (smaller fiscal deficits, lower inflation, higher reserves, and lower debt burdens) put into place in advance of the crisis. These buffers, when combined with greater IMF support, enabled a large number of LICs to increase government expenditures and pursue counter-cyclical fiscal policies. The significant increase in IMF lending was critical to enabling countries to protect and even increase social spending, which in turn should help to prevent an increase in child labor. A recent IMF study found that almost 90 percent of countries supported by a Fund program increased real public spending in 2009, and these countries grew health and education spending at a higher rate than LICs without an IMF program.<sup>5</sup>

### *Examples of IMF Work Related to Child Labor Issues*

National Development Strategies (NDS): Afghanistan's 2009 NDS, designed in conjunction with IMF staff, calls for a reduction in child labor, including:

- Establishment of a Secretariat for Child Protection.
- Improved law enforcement and legislation against harmful child labor. The NDS notes that regulations on kindergartens and harmful child labor have been drafted, and that a strategy for the implementation of ILO convention 182<sup>6</sup> has been disseminated.
- Implementation of an awareness campaign against harmful child labor. The NDS notes that the Afghan government has organized seminars/workshops aimed at increasing public awareness.
- Development of a Child Labor Monitoring System. The NDS calls for the improvement of existing provincial child labor monitoring systems. It also notes the

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<sup>5</sup> See “Emerging from the Global Crisis – Macroeconomic Challenges Facing Low-Income Countries”; October 6, 2010: <http://www.imf.org/external/np/pp/eng/2010/100510.pdf>.

<sup>6</sup> Convention Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour: <http://www.ilo.org/public/english/standards/relm/ilc/ilc87/com-chic.htm>.

establishment of 29 Child Protection Action Network commissions in 29 provinces, settling more than 500 cases of child abuse.

Poverty Reduction Strategies (PRS): IMF staff work, in conjunction with staff from the World Bank, to support LIC authorities in developing PRSs, which address labor practices, child labor, and education enrollment. Some recent examples include:

- Nicaragua's 2010 PRS recommended increasing public social investment to avoid increases in the number of children left out of school each year. It reiterated the rights of children to a life without child labor and to a state-provided education. The PRS noted support for a program established in 2008, wherein 3,000 children per year that have been exploited under poor working conditions are sponsored and retained in schools.

IMF and ILO collaboration and interaction take place through several channels. The institutions exchange drafts of relevant reports for comment, such as the IMF's World Economic Outlook and the ILO's annual report. In addition, the ILO meets with senior management and Board members of the Fund every two years to further enhance collaboration. The ILO regularly sends observers to spring and fall meetings of the International Monetary and Financial Committee. There are also periodic interactions of the managements and staffs of the two institutions, including meetings and participation in major conferences.

IMF Managing Director Strauss-Kahn and ILO Director General Juan Somavia chaired a joint high-level conference, "The Challenges of Growth, Employment and Social Cohesion," on September 13, 2010 in Oslo. The conference's objective was improving the integration of employment and social policies with international and national macroeconomic policy strategies. The conference brought together political, labor and business leaders, as well as leading academics.

The IMF has also deepened its regular exchange of views with international labor unions on issues such as employment and social protection. For example, in his visit to Kenya in March, 2010, IMF Managing Director Strauss-Kahn met with local labor unions. In June, 2010, MD Strauss-Kahn addressed the 2nd World Congress of the International Trade Union Confederation in Vancouver, participated in a panel debate, and met privately with union leaders. Among other topics, the MD discussed the IMF's more recent approach to country lending programs that aim to set realistic deficit reduction strategies, push for measures to protect the most vulnerable, and emphasize the importance of sharing the burden of adjustment equitably.

During the reporting period, the IMF has undertaken numerous studies on labor issues that are presented in Appendix 3.

## 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, 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 Labor Convention, was adopted at the ILO's General Conference in 1999 and 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.

Of the eight ILO conventions, Freedom of association (Convention 87) and the right to organize and bargain collectively (Convention 98) are combined under one rubric in the ILO's Declaration on Fundamental Principles and Rights at Work. 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. The right to organize and bargain collectively (Convention 98) obligates the government parties to protect workers from reprisal by employers and to promote collective bargaining.

## APPENDIX 3: IFI Labor-related Research and Publications

### **The World Bank**

*Labor Laws in Eastern European and Central Asian Countries: Minimum Norms and Practices* (1.1mb pdf)

Social Protection Discussion Paper No. 0920; Publication Date: 10/09  
by Arvo Kuddo

*Openness and Technological Innovation in East Asia: Have They Increased the Demand for Skills?* (358kb pdf)

Social Protection Discussion Paper No. 0919; Publication Date: 10/09  
by Rita K. Almeida

*Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries* (736kb pdf)

Social Protection Discussion Paper No. 0918; Publication Date: 10/09  
by Arvo Kuddo

*Productivity Increases in SMEs: With Special Emphasis on In-Service Training of Workers in Korea* (420kb pdf)

Social Protection Discussion Paper No. 0917; Publication Date: 10/09  
by Kye Woo Lee

*Towards Comprehensive Training* (797kb pdf)

Social Protection Discussion Paper No. 0924; Publication Date: 11/09  
by Jean Fares and Olga Susana Puerto

*Pre-Employment Skills Development Strategies in the OECD* (652kb pdf)

Social Protection Discussion Paper No. 0923; Publication Date: 11/09  
by Yoo Jeung Joy Nam

*A Review of National Training Funds* (812kb pdf)

Social Protection Discussion Paper No. 0922; Publication Date: 11/09  
by Richard Johanson

*Pre-Employment Vocational Education and Training in Korea* (744kb pdf)

Social Protection Discussion Paper No. 0921; Publication Date: 11/09  
by Chang Kyun Chae and Jaeho Chung

*The Impact of Non-Wage Benefits on Job Quality and Labor Market Outcomes in the Developing World: What Do We Know?* (618kb pdf)

Employment Policy Primer Note No. 13, December 2009

*A Practitioner's Guide to Evaluating the Impacts of Labor Market Programs* (241KB PDF)

Employment Policy Primer Note No. 12, December 2009

*The Korean Case Study: Past Experience and New Trends in Training Policies* (855kb pdf)

Social Protection Discussion Paper No. 0931; Publication Date: 12/09

by Young-Sun Ra and Kyung Woo Shim

*Migration Pressures and Immigration Policies: New Evidence on the Selection of Migrants* (576kb pdf)

Social Protection Discussion Paper No. 0930; Publication Date: 12/09

by Johanna Avato

*Ex-Ante Methods to Assess the Impact of Social Insurance Policies on Labor Supply with an Application to Brazil* (1mb pdf)

Social Protection Discussion Paper No. 0929; Publication Date: 12/09

by David A. Robalino, Eduardo Zylberstajn, Helio Zylberstajn and Luis Eduardo Afonso

*Labor Market Policy Research for Developing Countries: Recent Examples from the Literature - What do We Know and What should We Know?* (289kb pdf)

Social Protection Discussion Paper No. 1001; Publication Date: 01/10

by Maria Laura Sanchez Puerta

*The Investment in Job Training: Why Are SMEs Lagging So Much Behind?*

Social Protection Discussion Paper No. 1004; Publication Date: 05/10

by Rita K. Almeida and Reyes Aterido

*Key Characteristics of Employment Regulation in the Middle East and North Africa* (785kb pdf)

Social Protection Discussion Paper No. 1006; Publication Date: 07/10

by Diego F. Angel-Urdinola and Arvo Kuddo with support from Kimie Tanabe and May Wazzan

*Non-Public Provision of Active Labor Market Programs in Arab-Mediterranean Countries: An Inventory of Youth Programs* (1.2mb pdf)

Social Protection Discussion Paper No. 1005; Publication Date: 07/10

by Diego F. Angel-Urdinola, Amina Semlali and Stefanie Brodmann

## **The Asian Development Bank**

*When Globalization Meets Urbanization: Labor Market Reform, Income Inequality, and Economic Growth in the People's Republic of China. November 2009.* Hong Gao, Ming Lu. ADBI Working Paper Series No. 162.

*Past and Future of the Labor Force in Emerging Asian Economies*  
<http://www.adb.org/Documents/Working-Papers/2010/Economics-WP218.pdf>

*Inclusive Growth, Full Employment and Structural Change: Implications and Policies for Developing Asia*  
<http://www.adb.org/Documents/Books/Growth-Employment-Structural-Change/default.asp>

*Impact of Labor Market Institutions on Unemployment: Results from a Global Panel*  
<http://www.adb.org/Documents/Working-Papers/2010/Economics-WP219.pdf>

*Minimum Wages and Changing Wage Inequality in Indonesia*  
<http://www.adb.org/Documents/Working-Papers/2010/Economics-WP196.pdf>

*Remittances and Household Welfare: A Case Study of Pakistan*  
<http://www.adb.org/Documents/Working-Papers/2010/Economics-WP194.pdf>

*Remittances and Household Welfare: A Case Study of Bangladesh*  
<http://www.adb.org/Documents/Working-Papers/2009/Economics-WP189.pdf>

*Remittances and Household Behavior in the Philippines*  
<http://www.adb.org/Documents/Working-Papers/2009/Economics-WP188.pdf>

*The Global Crisis and the Impact on Remittances to Developing Asia*  
<http://www.adb.org/Documents/Working-Papers/2009/Economics-WP185.pdf>

*Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth*  
<http://www.adb.org/Documents/Working-Papers/2009/Economics-WP182.pdf>

## **The Inter-American Development Bank**

*The Age of Productivity: Transforming Economies from the Bottom Up*. (in the Development in the Americas series, the IDB's Flagship Publication)  
[http://www.iadb.org/research/dia\\_detail.cfm](http://www.iadb.org/research/dia_detail.cfm)

*Final Report of the entra 21 Program: Phase I 2001-2007*  
<http://www.iadb.org/publications/search.cfm?query=&context=&filter=Publicationtype%3D%3DTechnical%20Notes%2D%2DTN%0Apublication%5Ftopic%3D%3DLabor%2D%2DLABO&lang=en>

*Gender Earnings Gaps in the Caribbean: Evidence from Barbados and Jamaica*  
Bellony, Annelle; Hoyos, Alejandro; Nopo, Hugo.

*Evolution of Gender Gaps in Latin America at the Turn of the Twentieth Century: An Addendum to "New Century, Old ..."*

<http://www.iadb.org/publications/search.cfm?query=&context=&filter=Publicationstype%3D%3DWorking%20Papers%2D%2DWP%0Apublication%5Ftopic%3D%3DLabor%2D%2DLABO&lang=en>

*The Persistent Gender Earnings Gap in Colombia, 1994-2006.* May, 2010. Hoyos, Alejandro; Ñopo, Hugo; Peña, Ximena

*The Gender Dividend: Capitalizing on women's work.* March 2010. Pages-Serra, Carmen, Claudia Piras

### **The African Development Bank**

*Transferts de fonds des migrants au Maghreb et en Zone Franc: Rapport final (Migrant Remittances in the Maghreb and the CFA Franc Zone : Final Report).* November 2009.  
<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/RapportAteliersTransfertversion%20d%C3%A9finitive.pdf>

*Investing Differently in Women.* March 2010.  
<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/minutes%20and%20report%20of%20AWES%20%20FINAL%20by%20G%20D%20April%2021st.pdf>

*Cameroun: Document de stratégie pour la croissance et l'emploi (Cameroon : Strategy Document for Growth and Employment.)*. April 2010.  
<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Cameroon%20DSCE2009.pdf>

*Egypt Private Sector Country Profile 2009.* June 2010.  
<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Brochure%20Egypt%20Anglais.pdf>

*Gabon: Private Sector Development.* October 2010.  
[http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Gabon%20-%20Economic%20and%20sector%20work%20-%20private%20sector%20devlpt%20in%20the%20Rep%20%20of%20Gabon\\_Final.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Gabon%20-%20Economic%20and%20sector%20work%20-%20private%20sector%20devlpt%20in%20the%20Rep%20%20of%20Gabon_Final.pdf)

### **The European Bank for Reconstruction and Development**

*Cross country differences in job reallocation: the role of industry, firm size and regulations.*

John Haltiwanger, Stefano Scarpetta and Helena Schweiger.

<http://www.ebrd.com/downloads/research/economics/workingpapers/wp0116.pdf>

*Earnings inequality and the informal economy: evidence from Serbia.*

Gorana Krstić and Peter Sanfey

<http://www.ebrd.com/downloads/research/economics/workingpapers/wp0114.pdf>

*Unemployment Dynamics during Recessions and Recoveries: Okun's Law and Beyond,*

World Economic Outlook, Chapter 3, April 2010.

*Labor Market Dynamics in Korea—The Role of Institutions and Shocks, Korea Selected Issues Paper, Chapter 3.* September 2010.

*Informal Labor and Credit Markets: A Survey.* Batini, Nicoletta ; Young-Bae, Kim ; Levine, Paul ; Lotti, Emanuela, Working Paper No. 10/42, February 1, 2010

*Output and Unemployment Dynamics during the Great Recession: A Panel Unobserved Components Analysis.* Vitek, Francis, Working Paper No. 10/185, August 1, 2010

*What Can International Cricket Teach Us About the Role of Luck in Labor*

*Markets?* Aiyar, Shekhar ; Ramcharan, Rodney, Working Paper No. 10/225, October 1, 2010

*On the Distributive Effects of Terms of Trade Shocks: The Role of Non-tradable Goods,*

Galiani, Sebastian ; Heymann, Daniel ; Magud, Nicolas E, Working Paper No. 10/241, October 1, 2010

## **International Monetary Fund**

*Firm Productivity, Innovation and Financial Development,* Working Paper No. 10/49.

Dabla-Norris, Era; Kersting, Erasmus; Verdier, Geneviève. February 1, 2010

*Informal Labour and Credit Markets: A Survey.* Working Paper No. 10/42.

Batini, Nicoletta; Young-Bae, Kim; Levine, Paul; Lotti, Emanuela. February 1, 2010

*Unemployment Dynamics during Recessions and Recoveries: Okun's Law and Beyond,*

World Economic Outlook, Chapter 3, April 2010.

*Wage Policy and Fiscal Sustainability in Benin.* African Departmental Paper No. 10/01.

Lundgren, Charlotte J. May 25, 2010

*Evaluating Government Employment and Compensation.* Technical Notes and Manuals

No. 2010/15. Clements, Benedict J.; Gupta, Sanjeev; Karpowicz, I.; Tareq, Shamsuddin. September 20, 2010

*Output and Unemployment Dynamics during the Great Recession: A Panel Unobserved Components Analysis.* Vitek, Francis. Working Paper No. 10/185, August 1, 2010

*Labor Market Dynamics in Korea—The Role of Institutions and Shocks*, Korea Selected Issues Paper, Chapter 3. September 2010.

*Cross-Cutting Themes in Employment Experiences During the Crisis*, November 2010.

*Human Cost of Recessions: Assessing It, Reducing It*, IMF Paper for the conference “The Challenges of Growth, Employment and Social Cohesion”, September 2010.

*What Can International Cricket Teach Us About the Role of Luck in Labor Markets?*, Aiyar, Shekhar ; Ramcharan, Rodney, Working Paper No. 10/225, October 1, 2010

*On the Distributive Effects of Terms of Trade Shocks: The Role of Non-tradable Goods*, Galiani, Sebastian ; Heymann, Daniel ; Magud, Nicolas E, Working Paper No. 10/241, October 1, 2010