



FOURTH ITEM ON THE AGENDA

ILO relations with the Bretton Woods institutions

1. In view of the time constraints that curtailed the Committee's discussion of the paper on relations with the Bretton Woods institutions in November 1999,¹ a number of calls from members of the Committee were made for this item to be again included on its agenda at the present session. This paper contains an update on the main developments concerning the evolving partnership at the policy level that occurred since November. The original paper submitted in November is appended. Developments relating more specifically to relations with the Bretton Woods institutions in the areas of trade and globalization within the UN system, follow-up on the World Summit for Social Development may be found in papers GB.277/WP/SDL/2, GB.277/8, and GB.277/ESP/3, respectively.

Recent developments**1. Poverty reduction in a comprehensive development framework**

2. Decisions taken by the Bretton Woods institutions at the time of their 1999 annual meetings, in the context of reforming the international financial and social architecture – reported to the Committee in November – have been significantly carried forward with the objective of providing for a coordinated and better targeted approach to poverty reduction within a more comprehensive and holistic development framework. This is to be achieved by replacing the IMF's Enhanced Structural Adjustment Facility (ESAF) with a new Poverty Reduction and Growth Facility (PRGF), and linking all concessional lending through the World Bank Group's International Development Association (IDA) and under the PRGF, as well as relief under the Enhanced Highly Indebted Poor Countries (HIPC) Debt Relief Initiative, to the preparation of nationally owned Poverty Reduction Strategy Papers (PRSP).
3. At their meetings in December, the Executive Boards of the World Bank and IMF endorsed the adoption of the PRSP as the main mechanism for developing and

¹ GB.276/ESP/5.

coordinating concessional lending to low-income countries, including the commitment of resources under the HIPC initiative. This was based on proposals contained in papers, released to the public and prepared jointly by the staffs of both institutions, on the status of, and the next steps and operational issues concerning, the PRSP process. In so doing the Directors agreed that, in line with the principles of the Comprehensive Development Framework (CDF),² the PRSPs should be country-driven, with the broad participation of elected bodies, civil society and development partners. They should also reflect the country-specific nature and determinants of poverty, be results-oriented and link public action to poverty outcomes, especially through faster, broad-based growth. Flexibility should be built into the process to reflect diversity in country context and capacity. As currently conceived, it is expected that a PRSP will normally take one year to complete, with a new PRSP prepared every three years and progress reports prepared annually in-between. As a transitional measure for urgent PRGF or HIPC decisions, a shorter interim PRSP would be needed which at least should provide for the elaboration of the participatory process and as far as possible the main elements of the strategy. At each stage, the PRSP or progress report will be subject to a joint IMF-World Bank staff assessment for endorsement by their Boards as a context for lending assistance. This entire PRSP process will be subject to review, and it is expected that progress in its implementation will be subject to a status report at the Bank and Fund spring meetings in April, with a progress report at the time of the annual meetings in September 2000 and a full review in autumn 2001. The ILO will take advantage of its new observer status in the International Monetary and Financial Committee and in the Development Committee, since last year, as well as at the IMF-World Bank annual meetings, to play an appropriate role in these meetings.

4. For the Bank, the PRSP would help set the context for its country assistance strategies and lending decisions. It would also contribute to improved development aid coordination. Implementation of the PRSP process in this context would also have the effect of bringing forward the CDF process and giving it a head start in the low-income countries concerned.
5. The IMF has accepted that PRGF-supported programmes will be based on country-owned poverty reduction strategies, adopted in a participatory process involving civil society and development partners and articulated in a PRSP. This is intended to ensure that each programme will be consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. In this context, the Executive Board of the IMF reaffirmed the importance of macroeconomic stability, market-based reform and good governance in engendering rapid sustainable growth as a prerequisite for enduring poverty reduction, where the poor contribute to and share in the benefits of growth. In cases where PRGF arrangements are already in place, the transitional interim PRSP will allow existing operations to continue without disruption. This will be accompanied by a jointly-agreed three-year macroeconomic framework and policy matrix, which would be subject to revision on completion of the full PRSP a year later. Some links in the process, such as the impact of trade issues on poverty reduction, remain unclear, and the IMF Executive Board has stressed that there can be no rigid blueprint for carrying forward the PRSP process, but rather that lessons will have to be drawn from experience and operations adapted accordingly.

² *ibid*, para. 12.

2. Poverty reduction and debt relief

6. As regards debt relief, both the World Bank and the IMF are cooperating closely and contributing financially in moving forward with the Enhanced HIPC Initiative. Many countries are involved. Under the original HIPC initiative debt service relief had been agreed for Uganda, Bolivia, Guyana and Mozambique. Subsequently, Burkina Faso, Côte d'Ivoire and Mali have received commitments. Under the enhanced initiative, the total number of countries that could be eligible is increased by about one-third to at least 36, with Bolivia, Mauritania, Uganda and Mozambique, and four to seven more expected to qualify by the end of April. Honduras and Nicaragua are already receiving debt service relief from the Central America Emergency Trust Fund, and are also expected to qualify under the HIPC initiative before long. In order to ensure that resources created by debt reduction are applied specifically to benefit the poor, countries now seeking HIPC assistance are expected not only to be following IMF and World Bank-supported adjustment and reform programmes, but also to have PRSPs in place by the HIPC decision point. In early cases an interim PRSP will be acceptable, with a full PRSP and one year of satisfactory implementation (as judged by a PRSP progress report) by the completion point. In addition to supporting debt relief under the HIPC initiative, a number of industrialized countries are considering the cancellation of bilateral external debts with savings to be applied direct to poverty reduction.

3. Issues

7. Some of these developments are not without controversy. Questions have been raised concerning the possible effects of continuing pressure for macroeconomic reforms and economic stability on government spending in social areas. Other questions have been raised concerning the division of labour between the Bank and the Fund and a perceived expansion of the scope of IMF activities, when at the same time some calls are being made for this to be cut back. Attention has also been drawn to the fact that the PRSP may represent yet another layer of conditionality. The Summit Meeting of African Heads of State in Gabon in January cited the depressingly high levels of unemployment and urged that much more be done to reduce poverty. It endorsed the IMF's new PRGF, which would give their countries a bigger role in designing economic programmes, but asked that it not result in more conditions, such as those related to deficit and growth targets and market reforms.
8. Clearly, the Bretton Woods institutions are placing the PRSP process at the head of their agenda for collaboration with other institutions such as the ILO. In mid-December a letter signed jointly by Mr. Wolfensohn and Mr. Camdessus was sent to the heads of multilateral agencies, including the ILO. While urging close institutional collaboration, it stressed that meeting the high expectations for this new approach was a major challenge, entailing important changes in World Bank and IMF operations, and that successful implementation would be possible only through the concerted efforts of all partners.

An ILO response: The role of decent work

9. According to the ILO's analysis, the approach of the Bretton Woods institutions, while emphasizing the integration of economic, structural and social dimensions, focuses attention on education, health, other social services, and issues of governance, but does not appear to give due weight to employment creation or the need for quality jobs as an important dimension of poverty reduction. This is clear not only from the papers that have

been issued concerning the CDF and the PRSP, but it is also evident in the January 2000 draft of the Bank's *World Development Report 2000-2001* on poverty reduction. This important issue was taken up by ILO representatives during consultations on the WDR in February, and the ILO is continuing to work with the Bank on strengthening the WDR in this and other areas of ILO concern.

10. As indicated in last November's paper, the ILO has been carrying out an internal review of its own decent work agenda and its links to the PRSP in order to maximize the synergy between the components of decent work and the poverty reduction processes of the Bretton Woods institutions. Identifying the contribution of the ILO Declaration and the promotion of standards, employment, social protection and social dialogue in these processes has highlighted opportunities for institutional collaboration at the political, institutional, analytical and operational levels. Such collaboration should provide a sound basis for the mutual reinforcement of institutional objectives, and a practical way of carrying forward the ILO's decent work agenda in the Bretton Woods context, while at the same time strengthening the fight against poverty and exclusion.
11. These considerations provided the main focus of dialogue between the ILO and the Bank during meetings in Washington organized at the beginning of March to follow up on the discussions initiated during the last Bank-Fund annual meetings in September 1999. The special ILO programme included a Bank-wide address to the staff by the Director-General, as the second (following that by the UN Secretary-General, Kofi Annan) in a series of addresses by heads of UN organizations, and a programme of staff discussions. The effort was aimed at promoting real possibilities for a medium- to long-term partnership based on complementarities and comparative advantages, where the ILO's role as a key player is recognized and supported.³ Immediately prior to this programme, effective ILO participation in the Bank's Human Development Week in the specific areas of training, social protection and labour markets – with particular emphasis on carrying forward the lessons of the Asian financial crisis (which built on the earlier ILO-Bank collaboration at the Tokyo meeting in November) – helped reinforce the positive climate for the ILO programme that was evident in the Bank.
12. Institutional dialogue of this nature has an extremely important role to play in engendering the positive institutional environment that is essential if partnership and cooperation at the country level is to flourish. Both the CDF and PRSP processes are country-focused, and country ownership is a central feature. Actual ILO participation, therefore, is not expected to come about principally through dialogue with the Bank or the Fund, but rather through consultation and cooperation with the responsible national bodies. This implies a major responsibility for the ILO's constituents in the countries concerned, and a strong supportive effort from ILO field offices and technical teams. Twelve countries,⁴ together with West Bank and Gaza, were initially included in the Bank's 18-month pilot CDF phase, which is due to be completed by next September, but in most cases the national CDF authorities still do not appear to have drawn the ILO substantively into the process. Implementation of the PRSP is moving ahead much more quickly. In principle, some 80 countries could be eligible for IDA and IMF-PRGF assistance. Of these, 31 had PRGF arrangements in place at the end of November 1999, while some 24 countries could have HIPC initiative assistance committed by the end of 2000. All existing PRGF cases coming

³ Due to the proximity of timing of these events to the Governing Body session, they will be the subject of an addendum to the present paper.

⁴ Bolivia, Côte d'Ivoire, Dominican Republic, Eritrea, Ethiopia, Ghana, Jordan, Kyrgyzstan, Morocco, Romania, Uganda and Viet Nam.

up for annual review, and countries seeking new PRGF arrangements, as well as applicants for IDA credits and countries seeking debt relief under the HIPC initiative, are expected to commence the PRSP process.⁵ Here the ILO must be willing to participate and to respond, within the limitations of its capacity and in association with its constituents and development partners. At the same time, however, it will be a priority to concentrate on demonstrating the important contribution of the ILO's decent work agenda and its components in a selected group of countries, where conditions and circumstances best reflect the value of related ILO studies, research and technical cooperation activities, the role of labour standards, and the application of tripartite dialogue.

Geneva, 28 February 2000.

⁵ Lists of: (i) countries eligible for IDA and PRGF assistance; (ii) countries with PRGF arrangements in place; and (iii) countries receiving or which could receive relief under the HIPC initiative, are available on request.

Appendix

Attach GB.276/ESP/5