Labor and Working Conditions

Insights from CAO Cases

CAO Advisory Insight Series: Strategic E&S Topics

CAO COMPLIANCE ADVISOR OMBUDSMAN

The Independent Accountability Mechanism for IFC & MIGA

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Acknowledgments
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Editors: A team at Communications Development Incorporated—
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Design: Carolina Rodriguez, Dilucidar Private Limited.

Layout: Elaine Wilson, Communications Development Incorporated.

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Contents

Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AMR	Annual Monitoring Report
CAO	Compliance Advisor Ombudsman
E&S	Environmental and social
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESAP	Environmental and Social Action Plan
ESDD	Environmental and social due diligence
ESIA	Environmental and Social Impact Assessment
ESRP	Environmental and Social Review Procedure
EU	European Union
FoA	Freedom of association
FY	Fiscal year
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labour Organization
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
NSEs	Nonstandard forms of employment
OECD	Organisation for Economic Co-operation and Development
PS	Performance Standards
WBG	World Bank Group
WGM	Workers' grievance mechanisms

Executive Summary

Labor and working conditions are central to the achievement of the International Finance Corporation's (IFC) mandate and to global development outcomes: how firms treat workers affects productivity, competitiveness, shared prosperity, and the sustainability of private-sector growth. The World Bank Group's renewed emphasis on creating more and better jobs makes this report particularly timely, given that the jobs agenda depends partly for its success upon the private-sector projects financed by IFC and the Multilateral Investment Guarantee Agency (MIGA). To support these objectives, IFC and MIGA need to both contribute to the generation of new jobs and support safe, fair, and decent working conditions in those jobs. IFC's Performance Standard 2 (PS2) articulates requirements for clients on labor and working conditions and seeks to protect workers' fundamental rights. It thus promotes good jobs in IFC-financed projects while promoting poverty alleviation and economic growth.

How successful is PS2 in protecting worker rights and supporting the quality of the private-sector jobs IFC generates? Have IFC and MIGA consistently and effectively addressed labor risks and issues that arise in the projects they finance? Can they do better? Answers to these questions may be illuminated by an examination of the Compliance Advisor Ombudsman's (CAO) caseload, which records labor complaints raised by project-affected people. Accordingly, CAO's Advisory function presents this Advisory Note—one in a series that seeks ways to improve IFC's and MIGA's systemic performance on environmental and social sustainability and on reducing the risk of harm—to support continual institutional learning and improvement in addressing project labor and working conditions.

Labor and working conditions are central to the achievement of IFC's mandate and to global development outcomes: productivity, competitiveness, shared prosperity, and the sustainability of private-sector growth. IFC and MIGA need to contribute to the generation of new jobs and to support safe, fair, and decent working conditions in those jobs

Thematically, this Note focuses on three aspects of labor and working conditions:

- Wages, contracts, and terms of employment.
- Freedom of association.
- Workers' grievance mechanisms.

While labor-related complaints to CAO span a broad range of issues, these three issues were selected for analysis because of their prevalence in complaints, because of the potential severity of worker harm in these areas, and because CAO considers them strategically relevant to IFC's and MIGA's application of Performance Standard 2.

To examine the relevance and effectiveness of IFC standards and practices, the analysis draws on CAO's caseload and on IFC documentation and interviews with IFC and MIGA staff. It complements these information sources with a benchmarking exercise that compares PS2 with labor standards adopted by the International Labour Organization and by other multilateral development banks. Using these varied sources, the Note analyzes IFC's approach to identifying, mitigating, and supervising labor risks over more than a decade of projects (FY2013–24). It devotes special attention to the PS2 requirements for IFC clients, and to the practical conduct and effects of due diligence, monitoring, supervision, and related processes.

The Note also looks at how today's global labor trends and emerging labor practices may present new challenges and opportunities for IFC's and MIGA's efforts to drive quality job creation.

Key Insights

Summary findings from the evidence base for CAO's recommendations

PATTERNS AND TRENDS IN CAO'S CASELOAD

Section 2 · 59 labor complaints · FY2013–24

- Complaints about labor comprise a significant share of CAO's caseload.
- Labor complaints span IFC's portfolio in terms of sectors, regions, project risk categorization, and stage of the project cycle.
- Among the sources of labor complaints, the most prevalent are concerns related to denied benefits, employment contracts, unlawful termination, and workplace reprisals—concerns that often appear together.
- Workers' organizing rights are often undermined by fear, reprisals, and employer interference, all of which weaken workers' ability to address issues in the workplace.
- The high share of complaints from workers in nonstandard forms of employment is consistent with a global rise in new forms of employment, with weaker protections.
- Complaints related to worker grievance mechanisms suggest that WGMs are sometimes constrained by fear of reprisals, weak responsiveness, and gaps in worker awareness of how they function.
- Fear, threats, intimidation, and reprisals are cross-cutting issues found in more than half the labor cases handled by CAO.

ASSESSING IFC LABOR STANDARDS: BENCHMARKING

Section 3 · Performance Standard 2 benchmarked against the International Labour Organization and 6 peer multilateral development bank frameworks

- While IFC's Performance Standard 2 sets high-level principles for labor standards, its practical effectiveness is limited by the fact that it is less detailed and prescriptive than many peer multilateral development bank frameworks and International Labour Organization standards.
- Important labor protections—such as clear contract requirements, wage protections, limits on working hours, and termination rules—are either absent from Performance Standard 2 or not explicitly required by it, creating material gaps in worker protection.
- Performance Standard 2's heavy reliance on domestic legal frameworks, combined with stronger provisions housed only in a nonbinding Guidance Note, reduces the standard's overall strength and enforceability.
- By aligning Performance Standard 2 more closely with international standards—through clearer rules on wages, termination, freedom of association, and grievance mechanisms—IFC could position its own standard as a leading global benchmark.

PERFORMANCE STANDARD 2 IMPLEMENTATION CHALLENGES

Section 4 · 12 compliance cases · 10 IFC projects · IFC and MIGA environmental and social staff interviews

- While IFC has a broad set of due diligence and supervision tools, CAO's findings and analysis suggest that those tools are applied unevenly—-limiting the effective identification and management of labor risks.
- Country-specific contextual labor risks—including legal, social, and economic conditions—have not been systematically assessed, verified, or integrated into project-level risk assessments.
- Labor risk identification has not been applied consistently throughout the project lifecycle, in some cases remaining a one-off exercise at appraisal rather than being revisited as risks evolve.
- At times, IFC's overreliance on client-provided documentation has limited its understanding of actual labor practices, underscoring a need for verification through site visits, workforce engagement, and independent sources—both at pre-investment due diligence and during supervision.
- Workforce engagement and labor-focused site visits have been inconsistent and often constrained by time, by labor expertise, and by concerns about retaliation and safety, contributing to uneven practice.
- Supervision and risk management tools—such as environmental and social action plans and monitoring reports—have often lacked the specificity, adaptability, and follow-through needed to manage evolving labor risks.

GLOBAL DEVELOPMENTS AND EMERGING ISSUES

Section 5 · Nonstandard forms of employment trends · Supply chain complexity · Wages · Climate impacts

- Globally, labor markets and jobs are evolving more rapidly than labor standards have been able to adapt to them. In particular, three trends have been exposing gaps in the existing standards:
  - Increases in nonstandard forms of employment and supply chain complexity can weaken worker protections.
  - Cost-of-living pressures erode wages' purchasing power.
  - Climate change impacts pose risks of harm to workers.
- Emerging labor market realities highlight a need to modernize IFC's Performance Standard 2—ensuring the standard's future effectiveness in ways that support IFC's and MIGA's role in the World Bank Group jobs agenda.
- The present moment offers IFC an opportunity for leadership in environmental and social standard setting.

Recommendations

IFC could improve its labor-related Performance Standard 2 and its due diligence and supervision practice for labor. Specifically, this Note finds that PS2's requirements lag those of IFC's multilateral development bank peers in all three thematic areas assessed:

- Wages, contracts, and terms of employment.
- Freedom of association.
- Workers' grievance mechanisms.

Moreover, while IFC has taken steps to improve practices, IFC sometimes applies its requirements insufficiently or inconsistently throughout project lifecycles.

IFC's update of its Sustainability Framework will provide a timely opportunity for both IFC and MIGA to consider strengthening their labor standards, processes, and procedures in general—and PS2's requirements in particular. CAO believes that the following recommendations[1] will provide a framework to better protect workers employed in IFC-financed and MIGA-guaranteed projects—furthering the World Bank Group jobs agenda and helping IFC and MIGA play a leading role in global efforts to meet ongoing and emerging challenges related to job quality.

1 Update IFC's Performance Standard 2

- Update PS2 to address gaps and strengthen alignment with peer MDBs, ILO, and good international practice.
- Reflect emerging issues in IFC's update of PS2.

2 Strengthen labor risk identification at due diligence

- More systematically identify and integrate contextual labor risks into early screening and appraisal of proposed investments.
- Clarify when IFC E&S staff should require or commission labor-specific assessments or audits; and clearly set out requirements for these assessments' or audits' scope, quality, and follow-up, particularly for high-risk projects.
- Ensure reviews of client-provided documentation are complemented by additional forms of assessment.

3 Enhance labor risk mitigation and supervision

- Increase the level of detail, adaptability, and disclosure of labor-related ESAP actions.
- Strengthen the management of retaliation, fear, and intimidation as cross-cutting labor risks.
- Use supervision site visits more strategically.
- Clarify escalation pathways for labor risks.
- Clarify and strengthen requirements and guidance for Annual Monitoring Report (AMR) inclusion of labor elements.

4 Bolster IFC labor expertise and client capacity

- Clarify criteria for engaging labor-specific expertise during IFC's appraisal and supervision.
- Leverage local labor expertise through engagement and collaboration.
- Strengthen staff capacity through targeted training and guidance.
- Provide more structured client capacity-building support.

1. CAO Policy (https://www.cao-ombudsman.org/sites/default/files/CAO%20Policy%20Layout/CAO-Policy-ENG.pdf), para. 147, provides for CAO's Advisory function to advise IFC/MIGA and their Boards with the purpose of improving IFC/MIGA systemic performance on E&S sustainability and reducing the risk of harm to people and the environment. It further stipulates that CAO's advisory work provides insights and recommendations on broader E&S issues relevant to IFC and MIGA's work by drawing on CAO experience and addressing complaints and good international practice.

About This Advisory Note

This Advisory Note is the latest in a series produced by the Compliance Advisor Ombudsman's (CAO) Advisory function, in line with its mandate to advise International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) and the Boards on improving IFC/MIGA's systemic performance on environmental and social sustainability and on reducing the risk of harm.[2] The Note aims to support IFC's and MIGA's continual institutional learning and improvement in addressing labor and working conditions in World Bank Group (WBG) private-sector projects.

The structure and thematic contents of the Note are summarized in the figure below.

CAO's objectives in publishing this Note are:

- To identify areas where the application of IFC's Performance Standard 2 (PS2) can be strengthened through IFC's practices, procedures, and client support.
- To highlight where PS2 may benefit from clarification or updates to its requirements.

In addition, the Note looks forward to assessing how global trends and emerging practices may affect job quality in IFC-supported and MIGA-supported projects—and where these challenges present opportunities for IFC and MIGA, especially in light of the "One World Bank Group" approach.

Structure of this Advisory Note

Four interconnected components examining labor and working conditions in IFC-financed projects

1 Introduction

- World Bank Group Jobs Agenda
- IFC's role in creating quality jobs
- Performance Standard 2 (PS2) overview

2 Overall labor trends in CAO cases

- Overall labor trends
- Wages & contracts
- Freedom of association
- Grievance mechanisms

3 IFC labor standards and benchmarking

- IFC Performance Standard 2
- Peer multilateral development bank and International Labour Organization standards
- Opportunities for IFC

4 PS2 implementation challenges

- Pre-investment due diligence
- Risk identification
- IFC supervision
- Risk mitigation

5 Global developments and opportunities

- Nonstandard employment
- Supply chain complexity
- Living wages
- IFC and MIGA opportunities

6 Recommendations

- Update IFC's Performance Standard 2
- Strengthen labor risk identification at due diligence
- Enhance labor risk mitigation and supervision
- Bolster IFC labor expertise and client capacity

Source: CAO Report team 2026.
Note: Chapter structure reflects the four analytical components of the Note.

2. The CAO Advisory function and its mandate are enshrined in IFC & MIGA Independent Accountability (CAO) Policy, available at https://www.cao-ombudsman.org/sites/default/files/CAO%20Policy%20Layout/CAO-Policy-ENG.pdf.

Thematically, the Note's analysis focuses on three aspects of labor and working conditions:

- Wages, contracts, and terms of employment.
- Freedom of association.
- Workers' grievance mechanisms.

To be sure, labor-related CAO complaints span a broad range of issues. For this Note, the three aspects listed above were selected for analysis because of their prevalence in complaints, because of the potential severity of worker harm in these areas, and because CAO considers them strategically relevant to IFC's and MIGA's application of PS2.

The analysis draws insights from labor complaints handled by CAO, complemented by four other information streams:

- An IFC project document review.
- IFC and MIGA staff interviews. While the analysis did not include cases from MIGA, the Note is intended to provide recommendations relevant to both IFC and MIGA.
- Reviews of documents, data, and policy texts from the WBG, multilateral development banks, civil society organizations, and standard setters such as the International Labour Organization (ILO) and Organisation for Economic Co-operation and Development.
- Engagement with external stakeholders including trade unions, the ILO, and civil society organizations.

CAO analyzed overall trends and patterns in labor-related complaints based on a core data sample of 59 CAO cases related to labor-related complaints that were filed between FY2013 and FY2024

Although CAO's caseload reflects complaints and cases often initiated several years ago, the cases nevertheless offer valuable insight into recurring labor challenges and into how labor risks manifest in practice—particularly where issues persist across projects, sectors, and contexts.

Box 1 Research Design and Methodology

To examine labor issues under IFC Performance Standard 2 (PS2), this Note uses a mixed methods research design drawing on multiple research streams. The analysis relies primarily on CAO case data, complemented by IFC documentation, interviews with IFC and MIGA Environmental and Social (E&S) staff, and external reference sources (see Annex A).

Data sample

	Core sample	Deep dive sample
Description	59 cases handled by CAO classified as labor related	12 compliance cases classified as labor related
Number of projects	33	10[1]
Date range	FY2013–24	FY2013–24
Section covering the analysis	Section 2: Patterns and Trends in CAO's Caseload	Section 4: Assessing PS2 Implementation Challenges

The analysis draws on a defined and purpose-specific data sample. The core sample comprises 59 CAO cases related to complaints that were filed between FY2013 and FY2024 and classified as labor related.[2] In addition, a deeper analysis was conducted on a subset of the core sample to assess IFC's PS2 implementation practices. This deep dive sample comprises 12 CAO compliance cases.

(continued)

1. All approved on or after July 1, 2013.
2. Once a complaint is found eligible by CAO it becomes a CAO case.

Research Design and Methodology *(continued)*

Caseload[3] profile: Labor issues raised by complainants

The core sample provided the evidence base for CAO's analysis of overall trends and patterns in labor-related complaints (Section 2). Data sources include CAO reports, historical caseload data, and publicly disclosed IFC project information.

PS2 analysis and benchmarking

CAO conducted a gap analysis of policy texts with a focus on the three aspects of labor and working conditions addressed in this Note (Section 3). This analysis was informed first by CAO's caseload and second by PS2 benchmarking against labor standards at other multilateral development banks (MDBs) and at the International Labour Organization (ILO), as good international practice reference frameworks.

IFC PS2 implementation

To analyze how IFC identifies, mitigates, and supervises labor risks in practice, CAO conducted a deep dive into 12 labor-related compliance cases linked to IFC investments (Section 4). The data sources included IFC appraisal and supervision documents; compliance investigation materials; IFC's Environmental and Social Review Procedures (ESRP); and other E&S procedures, disclosures, and staff interviews. Because these cases span multiple years, the findings reflect IFC practices over time rather than at a single point in time. Where relevant, the Note considers subsequent updates to IFC procedures and incorporates staff interviews to help interpret how practices may have evolved.

Persistent and emerging issues

To identify persistent and emerging issues related to labor risks, CAO reviewed recent literature and reporting from standard setters including the ILO, together with World Bank Group (WBG) publications (Section 5). Information on regulatory and voluntary standards was gathered from Organisation for Economic Co-operation and Development sources, from ILO sources, and from MDBs' recent policy updates. Data on IFC's exposure were obtained from WBG Annual Reports and other recent regional and sector-based reports.

Scope and limitations

The research is predominantly qualitative and case-based. Because the sample comprises only cases handled by CAO, the findings should not be considered representative of the full IFC portfolio, nor should the conclusions be interpreted as statistically generalizable across the portfolio. The cases reviewed span FY2013–24, when IFC procedures and practices may have evolved. To account for this, the analysis was complemented by interviews with current IFC/MIGA E&S staff and a review of updated IFC procedures (including the ESRP), to help interpret case findings in light of current practice. Accordingly, the Note does not assess current practice solely on the basis of older cases.

3. *Caseload* is defined for the purpose of this Note as a group of CAO complaints.

1 Introduction

World Bank research has shown that jobs offer people globally the surest path out of poverty.[3] In addition, jobs provide economies with the domestic demand that can help sustain growth.[4] Against this backdrop, the World Bank Group (WBG)—including the International Finance Corporation (IFC)—has made job creation “an explicit aim of everything we do, not simply a byproduct of our projects.”[5]

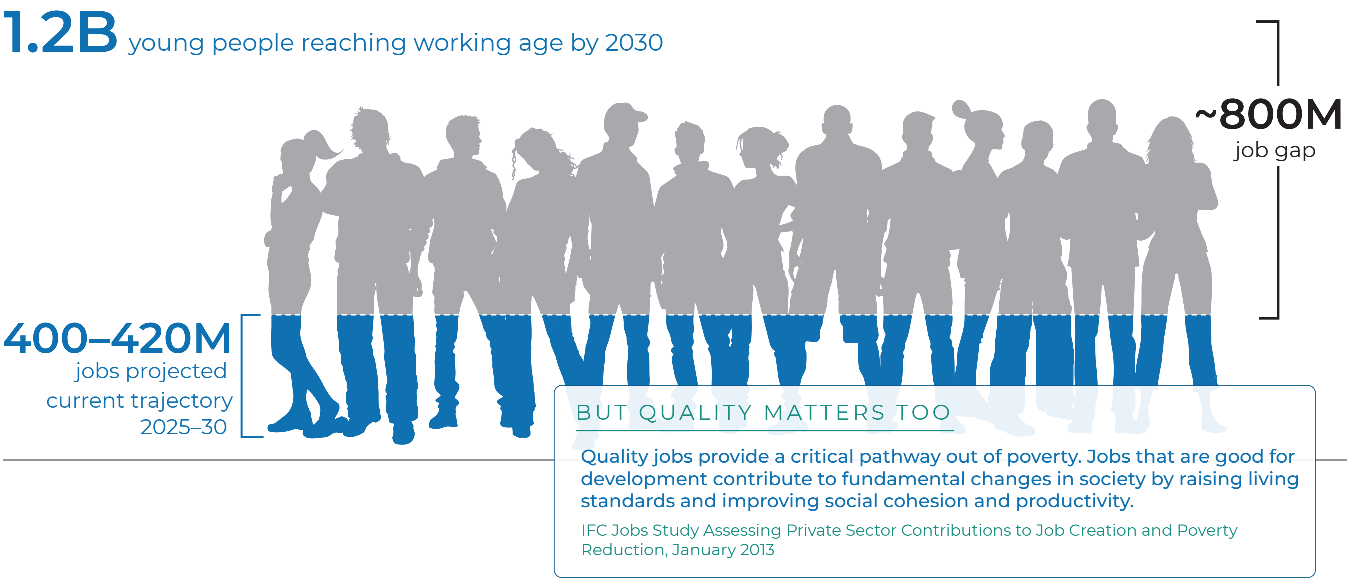
Importantly, the WBG’s approach emphasizes that—alongside income—jobs provide dignity and purpose and contribute to social stability. The need to create good jobs is especially pressing for the 1.2 billion young people who will reach working age in the next decade, with the largest share in developing countries (figure 1.1).

IFC-financed projects play a critical role in advancing the WBG’s development objectives, particularly its jobs agenda. To further this agenda, IFC must not only generate new private-sector jobs through its investments—it must also address whether those jobs provide safe, fair, and decent working conditions, respecting fundamental labor rights as part of the development outcomes they are intended to achieve.[6]

FIGURE 1.1

The Global Jobs Gap

Young people entering the workforce vs. jobs expected to be created, 2025–30



Risk of worse conditions or potential labor rights erosion

The global jobs crisis is not just about quantity—it is about the quality of work and working conditions

Source: World Bank 2026; Reuters April 2026 (https://www.reuters.com/business/world-at-work/world-bank-chief-sounds-alarm-about-looming-jobs-crisis-even-after-war-ends-2026-04-13/).
Note: Projections are estimates; job gap is derived from the difference between workforce entrants and projected job creation.

3. World Bank 2026: https://www.worldbank.org/ext/en/jobs.
4. World Bank 2026: https://www.worldbank.org/ext/en/topic/fiscal-policy-and-growth/jobs-growth, “When more people have steady, better-paid jobs, they spend more, businesses grow, and economies expand.”
5. World Bank 2025: https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2025/Final_DC2025–0004.pdf.
6. The World Bank Group Corporate Score Card includes “More and better jobs” as a cross cutting theme, noting that job creation has direct or indirect implications to *every* outcome area captured in the new Scorecard and aligns with the Sustainable Development Goals 1 (No poverty), 4 (Quality education) and 8 (Decent work and economic growth). See here for the score card landing page for jobs.

From an environmental and social risk management perspective, IFC's Performance Standard 2 (PS2) articulates requirements for clients on labor and working conditions. It seeks to protect workers' fundamental rights,[7] aiming to promote good jobs[8] in IFC-financed projects while contributing to poverty alleviation and to economic growth. A summary description of the standard appears in box 1.1.[9]

Apart from the overarching PS1 (Assessment and Management of Environmental and Social Risks and Impacts), PS2 is the most applicable Performance Standard across IFC's portfolio. Most IFC-financed projects employ workers, sometimes by the thousands. And yet, IFC and the Multilateral Investment Guarantee Agency (MIGA) face challenges as they seek to improve labor and working conditions and the quality of private sector jobs. In particular, companies operate within varied frameworks of national laws and customary practices and have their own workplace cultures. Each of these factors can affect job quality. PS2 is explicitly designed to apply in conjunction with national labor laws, but not be limited by them. Also demanding urgent attention are several global trends reshaping the future of jobs. Among these trends:

- The rise of nonstandard forms of employment, which leave a large share of workers outside legal protection. Technological innovation and the emergence of AI.
- The growing complexity and redistribution of supply chains.
- Rising living costs and corresponding declines in real, inflation-adjusted, wages and purchasing power.
- The workplace effects of climate change.
- The rapid push towards greening economies, which brings risks as well as benefits.

Most IFC-financed projects employ workers, sometimes by the thousands, but IFC and MIGA face challenges as they seek to improve labor and working conditions and the quality of private sector jobs

Against this backdrop, this Note examines lessons learned from labor-related CAO cases to assess how to strengthen IFC's and MIGA's application of PS2. Such strengthening can help to promote the creation of high-quality jobs through IFC- and MIGA-supported projects and contribute to WBG priorities. CAO thus aims to support a forward-looking jobs agenda by generating key insights that can be embedded in future project design, appraisal, and supervision.

7. *Fundamental* in this context is defined by the ILO and United Nations Conventions.
8. IFC defines a good job as "a job that guarantees workers' fundamental rights while paying them a decent and fair wage." See the 2013 IFC Jobs Study: *Assessing Private Sector Contributions to Job Creation and Poverty Reduction.* http://hdl.handle.net/10986/16979. License: CC BY 3.0 IGO.
9. For the full text of PS2 see: https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standard-2-en.pdf.

Box 1.1 Overview of Performance Standard 2: Labor and Working Conditions

IFC first adopted Performance Standard 2 (PS2) in 2006, as part of the first set of environmental and social Performance Standards, all of which were updated in 2012. Under its Sustainability Framework,[1] IFC seeks to ensure during project pre-investment due diligence and subsequent supervision that the business activities it finances are implemented in accordance with the requirements of the Performance Standards.

Scope

PS2 establishes IFC client requirements for protecting workers' fundamental rights and promoting fair, safe, and productive labor practices. The standard covers direct workers, contracted workers, and, on a risk-based basis, primary supply chain workers, with requirements varying according to the type of employment relationship. The extent of client responsibility depends on the client's level of control or influence over employment arrangements.

Objectives

- Promote fair treatment, nondiscrimination, and equal opportunity of workers.
- Establish, maintain, and improve the worker–management relationship.
- Promote compliance with national employment and labor laws.
- Protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.
- Promote safe and healthy working conditions, and the health of workers.
- Avoid the use of forced labor.

Key Requirements

PS2 articulates specific requirements for clients in the following areas:

- *Working conditions and employment practices,* including employment terms and conditions, nondiscrimination and equal opportunity.
- *Retrenchment,* including notice, severance payments, and benefits in cases of termination during retrenchment.
- *Worker organizations and grievance mechanisms,* including freedom of association and collective bargaining and workers' grievance mechanisms.
- *Workforce protection,* including prohibitions of child labor and forced labor.
- *Occupational health and safety,* covering safe and healthy working conditions and emergency preparedness and response.
- *Third party workers and supply chains,* including commercially reasonable efforts to ascertain that contractors and suppliers operate in a manner consistent with PS2 requirements.

Note

1. IFC's Sustainability Framework articulates the Corporation's strategic commitment to sustainable development and is an integral part of IFC's approach to risk management. https://www.ifc.org/en/insights-reports/2012/publications-handbook-sustainabilityframework.

2 Patterns and Trends in CAO's Caseload

From FY2013 through FY2024, labor-related issues made up a significant share of the issues raised in Compliance Advisor Ombudsman (CAO) complaints by project-affected people around the world. These labor-related issues span sectors where the International Finance Corporation (IFC) has a high concentration of investments, and they are common across projects in environmental and social (E&S) risk categories A and B.[10]

This section is based on CAO's analysis of 59 labor-related cases from 33 IFC projects brought to CAO between FY2013 and FY2024. It begins with an overview of trends in labor cases handled by CAO over FY2013–24, with attention to their prevalence in CAO's overall caseload, to the origins of the labor complaints—by type of complainant, by sector, and by region—and to the mode of employment, whether standard or nonstandard. Following this overview, the section analyzes three types of labor-related issue frequently raised by workers:

- Wages, contracts, and terms of employment.
- Freedom of association.
- Workers' grievance mechanisms.

Across all three categories, workers have expressed concerns about fear as an impediment to raising their grievances—fear caused by threats, by intimidation, and by actual reprisals (figure 2.1).

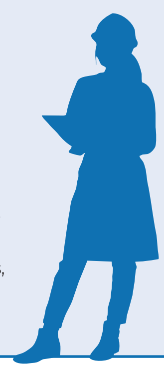
Importantly, CAO's case data presented here reflect only complaints brought to CAO over FY2013–24. While these cases afford valuable insight about the types of labor issues that arise in IFC-financed projects, they do not offer a complete picture of such issues across IFC's portfolio.

Despite being less than fully representative, the CAO cases present patterns and trends that, once identified, can empirically ground forward-looking recommendations for adjustments to IFC and Multilateral Investment Guarantee Agency policy and practice. In particular, the cases highlight specific vulnerabilities, weaknesses in IFC's Performance Standard 2 (PS2) implementation, and gaps in PS2's requirements, and can inform targeted improvements to IFC's Sustainability Framework.

KEY INSIGHTS

Section 2 · 59 labor complaints · FY2013–24

- Complaints about labor comprise a significant share of CAO's caseload.
- Labor complaints span IFC's portfolio in terms of sectors, regions, project risk categorization, and stages of the project cycle.
- Among the sources of labor complaints, the most prevalent are concerns related to denied benefits, employment contracts, unlawful termination, and workplace reprisals—concerns that often appear together.
- Workers' organizing rights are often undermined by fear, reprisals, and employer interference, all of which weaken workers' ability to address issues in the workplace.
- The high share of complaints from workers in nonstandard forms of employment is consistent with a global rise in new forms of employment, with weaker protections.
- Complaints related to worker grievance mechanisms suggest that WGMs are sometimes constrained by fear of reprisals, weak responsiveness, and gaps in worker awareness of how they function.
- Fear, threats, intimidation, and reprisals are cross-cutting issues found in more than half the labor cases handled by CAO.



10. Category A projects are those with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible, or unprecedented. Category B projects are those with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

FIGURE 2.1

Three Focus Areas

Selected for prevalence in complaints, severity of worker harm, and strategic relevance to IFC's application of Performance Standard 2

1 Wages, Contracts and Terms of Employment

49 complaints

83% of labor caseload

WHAT IT IS

These define how workers are paid and the conditions governing their employment.

WHY IT MATTERS

They shape income stability, job security and vulnerability.

2 Freedom of Association

9 complaints

15% of labor caseload

WHAT IT IS

This refers to workers fundamental right to organize, join unions, and engage in collective bargaining.

WHY IT MATTERS

It enables workers to protect their rights and negotiate conditions collectively.

3 Worker Grievance Mechanisms

16 complaints

27% of labor caseload

WHAT IT IS

Formal channels for workers to raise concerns and seek remedy within IFC-financed projects.

WHY IT MATTERS

They help address issues early and prevent escalation of harm.

COMMON THREAD

Fear, threats, and reprisals appear in 31 of 59 labor complaints, cutting across all three focus issues and undermining every worker protection.

Source: CAO complaint data FY2013–24.
Note: There were 59 labor-related complaints.

2.1 Overall trends in labor complaints received by CAO

Throughout the two decades since IFC first introduced its Performance Standards in 2006, labor-related complaints by project-affected people have made up a significant share of complaints to CAO—averaging about 30 percent overall. More recently, over FY2013–24, labor complaints made up 39 percent of all CAO-eligible complaints (figure 2.2).[11]

Among the 59 labor complaints that CAO received over FY2013–24, nearly two-thirds (65 percent) were submitted directly by workers, either as individuals or as groups. The rest were submitted with support from civil society organizations, including trade unions.

About half of all labor complaints originated in the infrastructure and manufacturing sector (figure 2.3). Other sectors generating notable shares of labor complaints included agribusiness (15 percent), extractive industries (15 percent), and health and education (9 percent).

> **Labor-related issues make up a significant share of the issues raised in CAO complaints by project-affected people around the world**

Across IFC's global portfolio, the highest proportion of labor complaints came from projects in Africa, and the next highest, from Latin America and the Caribbean (see figure 2.3). This distribution diverges from IFC's historical portfolio composition, where investments have been more evenly spread across regions. This divergence could reflect regional differences such as:

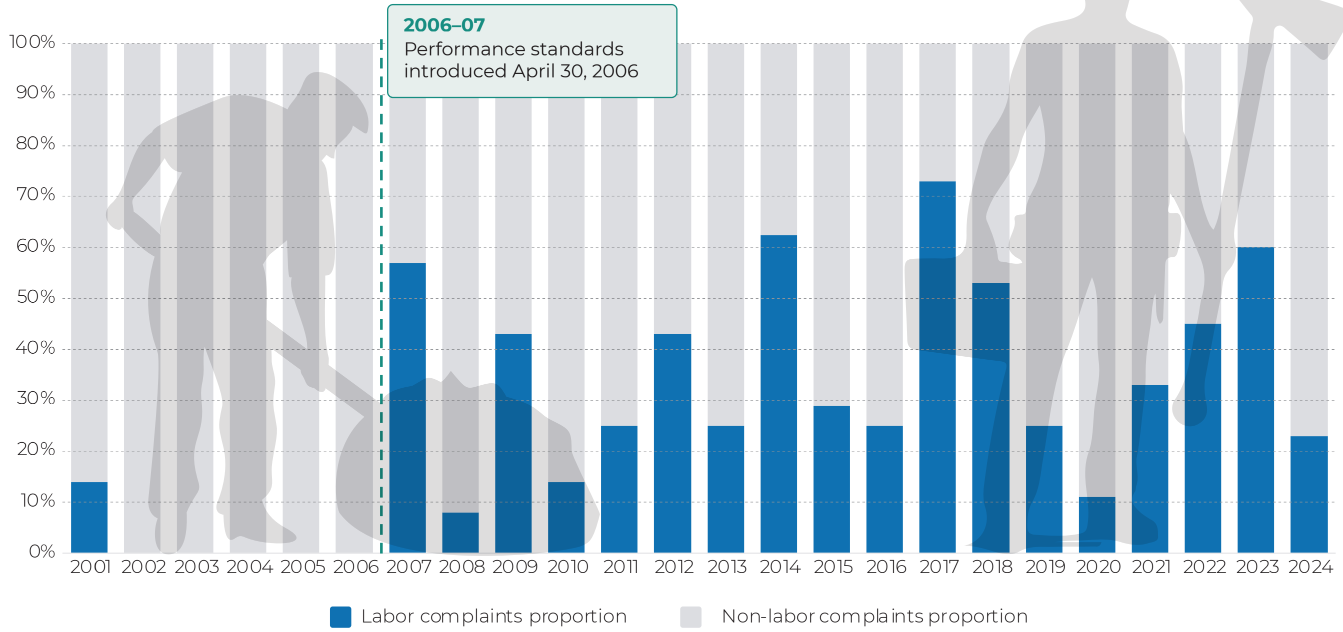
- Differing labor market conditions and regulatory environments, including variations in the coverage and enforcement of labor laws.
- Variations in worker awareness and access to grievance mechanisms.
- Differences in the nature of IFC investments—for example, in their scale or sectoral concentration.

11. Of 152 total eligible complaints over FY2013–24, 59 were labor related. The number of CAO-eligible complaints varied from year to year, as did the types of project involved.

FIGURE 2.2

Share of Labor Complaints in CAO's Caseload

Labor-related complaints as a percentage of all eligible CAO cases, FY2001–24



Labor complaints have been a significant proportion of CAO's caseload since the performance standards were introduced—averaging about 30%

Source: CAO caseload data FY2001–24.
Note: Proportion is complaints as a share of all eligible CAO cases received in that fiscal year.

- Variations in the regional presence of civil society organizations.[12]

Of IFC's E&S risk categories, the labor complaints were filed across projects in both high-risk Category A and medium-risk Category B (see figure 2.3). The share of labor complaints in Category B projects (59 percent) versus Category A projects (34 percent) is broadly consistent with IFC's overall portfolio distribution of Category A and B projects.

Most labor complaints came during the operational phase—even where the projects had been approved during development or construction (see figure 2.3). This differs from what might be expected, given the heightened labor risks typically associated with construction, such as risks to occupational health and safety and risks related to greater reliance on contractors and subcontractors. This might be explained by factors including the time-bound nature of construction activities; the use of internal grievance mechanisms; the temporary nature of construction employment; and a limited awareness of the CAO among subcontracted workers. The pattern calls for additional analysis, and its drivers warrant further attention.

Around half of all the labor complaints in the sample involved workers in nonstandard forms of employment (NSEs)[13]—including contracted[14]

12. The number of complaints supported by unions or civil society organizations was 2 of 27 in Africa, 2 of 11 in Latin America and the Caribbean.
13. *Nonstandard forms of employment* is an umbrella term for various employment arrangements that deviate from standard employment, including temporary employment, part-time or on-call work, temporary agency work, multi-party employment relationships, disguised, and self-employment (ILO 2016). *Contracted* or *sub-contracted labor* exists where workers are not directly employed by the companies they serve but, instead, are engaged through contractual arrangements involving other parties; such arrangements may also be termed *third-party* or *multi-party employment relationships. Temporary employment* refers to fixed-term contracts including project or task-based contracts, seasonal work, and casual work (ILO 2016), https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40dgreports/%40dcomm/%40publ/documents/publication/wcms_534326.pdf..
14. *Contracted* or *sub-contracted labor* exists where workers are not directly employed by the companies they serve but, instead, are engaged through contractual arrangements involving other parties; such arrangements may also be termed *third-party* or *multi-party employment relationships.* (ILO 2016), https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40dgreports/%40dcomm/%40publ/documents/publication/wcms_534326.pdf..

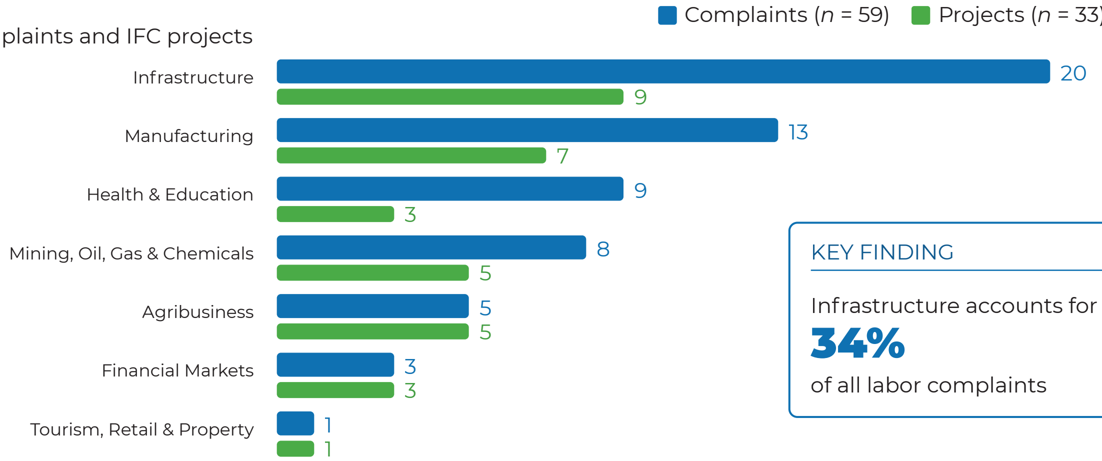
FIGURE 2.3

Labor Complaints in IFC's Portfolio

FY2013–24 · 59 labor-related complaints · 33 unique IFC projects

BY SECTOR

Number of complaints and IFC projects

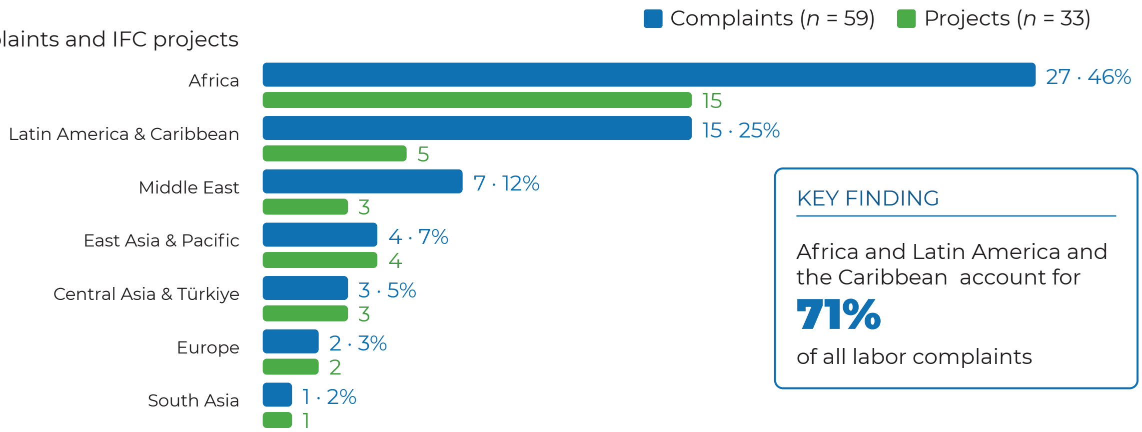


KEY FINDING

Infrastructure accounts for **34%** of all labor complaints

BY REGION

Number of complaints and IFC projects

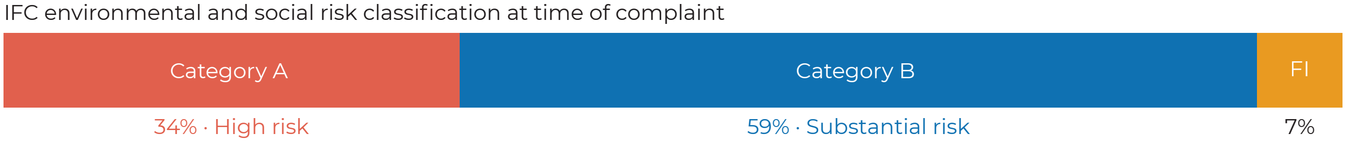


KEY FINDING

Africa and Latin America and the Caribbean account for **71%** of all labor complaints

BY E&S RISK CATEGORY

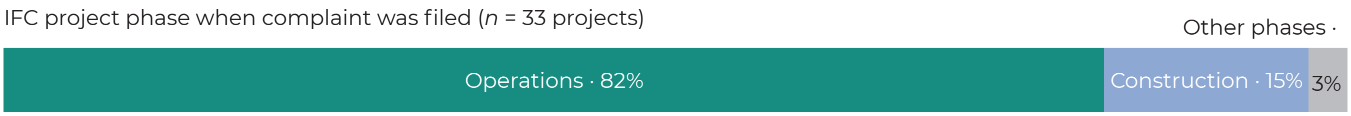
IFC environmental and social risk classification at time of complaint



Category A = Highest environmental and social (E&S) risk · Category B = Substantial E&S risk · FI = Financial intermediary

PROJECT PHASE WHEN ALLEGED ISSUE OCCURRED

IFC project phase when complaint was filed (*n* = 33 projects)



Most complaints arise during operations.

Other phases include preconstruction, development, exploration, acquisition, and ongoing expansion.

Source: CAO complaint data FY2013–24.
Note: There were 59 labor-related complaints and 33 unique IFC investment projects. Multiple complaints may relate to a single project. E&S category and phase reflect IFC classification at time of complaint filing.

and temporary[15] employment—and within this group, contracted workers made up the largest share (figure 2.4). This finding deserves closer scrutiny. Workers in NSEs are often more vulnerable to labor risks due to factors such as weaker contractual and legal protections, limited access to benefits and job security, a lack of representation, lesser ability to organize and engage management, challenges in accessing grievance mechanisms, and a lack of redress options for grievances.[16] These vulnerabilities affect all types of NSE workers—most notably as the employment and income instability typically associated with temporary, indirect, and casual work arrangements.

2.2 Contracts, wages, and terms of employment

Concerns related to wages, contracts, and terms of employment are the most prevalent labor issues raised by workers, appearing in more than 80 percent of labor-related cases over FY2013–24—or 49 of the 59 cases. The 49 cases point repeatedly to unpaid or denied wages and benefits, unfair or unlawful termination, workplace reprisals in response to filing a complaint about wages or terms of employment, and contract-related grievances.

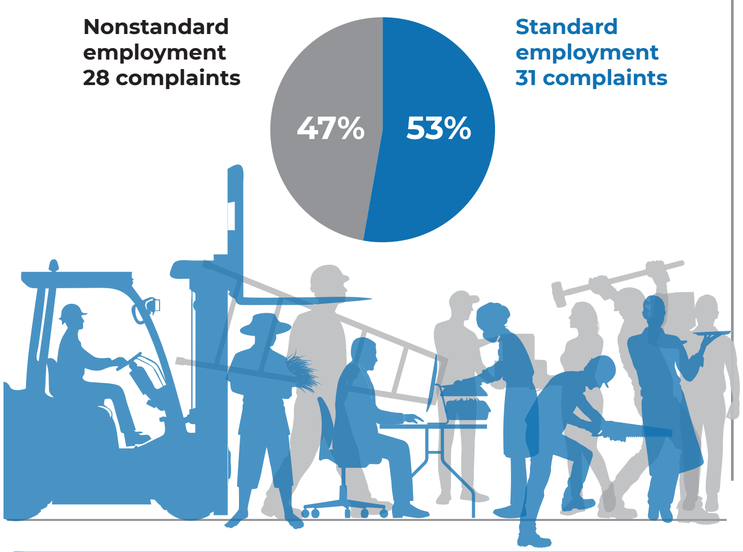
These issues often appear together in the complaints. An especially common phenomenon—seen in about half of all the labor-related cases that

FIGURE 2.4

Case Breakdown by Form of Employment

Nonstandard vs. standard form of employment in CAO labor complaints, FY2013–24

NONSTANDARD VS. STANDARD WORKERS



NONSTANDARD EMPLOYMENT

47%

of labor complaints involve workers in nonstandard forms of employment (NSE)

ALL 59 LABOR COMPLAINTS

Standard · 31 — 53%
Nonstandard · 28 — 47%

NSE BREAKDOWN (n = 28)

Indirect/contractor workers — **22** 79%
Temporary contracts — **4** 14%
Casual employment — **2** 7%

WHY NONSTANDARD WORKERS ARE MORE VULNERABLE

- Weaker legal protections
- Limited access to benefits
- Reduced ability to organize
- Fewer grievance options

Contracted workers represent the largest share of nonstandard employment complaints—a pattern consistent with the global rise of indirect and precarious employment

Source: CAO complaint data FY2013–24; *The effects of nonstandard forms of employment on worker health and safety;* Michael Quinlan; International Labour Organization, Inclusive Labour Markets, Labour Relations and Working Conditions Branch. Geneva: ILO, 2015 (Conditions of work and employment series, No. 67).
Note: Totals may not sum due to rounding. There were 59 labor-related complaints, of which 28 involved workers in NSEs. NSE workers include contracted, temporary, and casual workers. https://assets.eurofound.europa.eu/f/279033/f051df6c97/ef1746en.pdf; https://blogs.worldbank.org/en/jobs/addressing-challenge-non-standard-employment.

15. *Temporary employment* refers to fixed-term contracts, including project or task-based contracts, seasonal work, and casual work. (ILO 2016), https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40dgreports/%40dcomm/%40publ/documents/publication/wcms_534326.pdf..
16. Compared with workers in standard employment, NSE workers tend to experience higher levels of employment and income insecurity, reduced access to social protections and training, and weaker representation. ILO 2026, https://researchrepository.ilo.org/view/delivery/41ILO_INST/13147301370002676?bypassKey=492dd5a5-3f7a-45de-9fa7-2d91f07c5f19; OECD 2020, https://www.oecd.org/content/dam/oecd/en/publications/reports/2020/07/oecd-employment-outlook-2020_19b4fc0d/1686c758-en.pdf..

> **Concerns related to wages, contracts, and terms of employment are the most prevalent labor issues raised by workers**

raise wage issues (24 of 49)—is the compounding effect of wage issues on other issues involving contracts and employment terms. First, wages or benefits are allegedly withheld, and then workers are allegedly dismissed, in some cases after raising concerns about the withheld wages. In one example, workers at an African manufacturing project lodged a CAO complaint after raising concerns with their employer about unfair or unlawful wage deductions and unpaid wages, nonpayment of benefits, and the lack of a clear path from temporary contractual employment to permanent staff status. The workers alleged that the employer then retaliated by terminating their contracts.

Complaints also frequently raised other issues, including unilateral contract changes by employers; the misclassification of workers; a lack of clarity around contract renewal or nonrenewal; undocumented changes in benefits or status; and discrimination related to working and living conditions for workers from different social groups.

2.3 Freedom of association and collective bargaining

Among the labor cases for freedom of association (FoA), about three-fourths included allegations that employers had used fear, intimidation, reprisals, or obstruction to stop workers from organizing.

More generally, slightly more than half of all labor complaints in the sample allege employers' use of fear, threats, and reprisals (figure 2.5). Such allegations are more highly concentrated, however, in the cases with FoA complaints—and in those with complaints about workers' grievance mechanisms (see below).

Notably, in about half of the FoA cases, complainants alleged not only overt acts of retaliation by employers—such as the dismissal or demotion of union members—but also more structural forms of interference that systematically hindered workers'

FIGURE 2.5

Fear, Threats, and Reprisals in CAO's Labor Caseload

Prevalence of allegations of fear, threats, intimidation, and reprisals across 59 labor complaints, FY2013–24

OVERALL PREVALENCE

53%

of all labor complaints allege fear, threats, intimidation, or reprisals

31 of 59 complaints

WHY THIS MATTERS

Fear, threats, intimidation, and reprisals against workers are barriers to worker protections. They undermine wages and benefits claims, silence grievance mechanisms, and suppress organizing rights, requiring explicit preventive and remedial measures.

THREAT AND REPRISAL PREVALENCE BY FOCUS ISSUE

Source: CAO complaint data FY2013–24.
Note: There were 59 labor-related complaints. Issue breakdown: wages, 49; worker grievance mechanisms, 6; freedom of association, 9.

rights to organize. Examples of such interference included:

- Delaying the election of workers' representatives.
- Declining to recognize legitimate worker organizations—in one case creating a "company-controlled" parallel union.
- Denying worksite access to worker representatives.
- Imposing bureaucratic burdens to obstruct union registration processes.

Such examples suggest that IFC clients often undermine FoA through procedural and structural practices that reduce workers' ability to organize, as well as through directly retaliatory actions.

2.4 Workers' grievance mechanisms

CAO's caseload suggests that the main challenges associated with Workers' grievance mechanisms (WGMs) are their safe use by workers and their effective functioning. Among the WGM-related cases, three-fourths included reports that fear, intimidation, and reprisals were consistently associated with WGMs.

The main challenges associated with workers' grievance mechanisms are their safe use by workers and their effective functioning—among the related cases, most included reports of fear, intimidation, and reprisals

This pattern points to retaliation as a central barrier to workers accessing established WGMs. For example, CAO complaints cited retaliatory transfers, dismissals, and demotions as actions taken against complainants after they raised grievances. Workers also alleged that WGMs were often ineffective or unresponsive—with limited follow-up and delayed or absent resolution—and expressed low confidence that their complaints would be addressed fairly.

In some cases, workers who submitted complaints to CAO appear not to have understood how a project's WGM operated or whether it was available to them. This gap in understanding and awareness suggests deficiencies in client communication.

3 Assessing IFC Labor Standards: Insights from Benchmarking

The International Finance Corporation's (IFC) Performance Standard 2 (PS2) is designed to operate alongside applicable national labor laws, which define the legal baseline for worker protections that clients are required to meet. Yet PS2 also sets expectations that go beyond domestic legal compliance and draw on international standards—seeking to address labor risks that national frameworks may not cover adequately.

The latest revision of PS2, as updated in 2012, predates several important developments in International Labour Organization (ILO) standards and action. In some cases, other multilateral development banks (MDBs) have already updated their approaches.

Accordingly, this section assesses PS2 requirements related to:

- Wages, contracts, and terms of employment.
- Freedom of association.
- Workers' grievance mechanisms.

Reflecting the Compliance Advisor Ombudsman's (CAO) benchmarking analysis, the section identifies important areas in need of strengthening—along with opportunities for IFC to position itself as a leader.

For the analysis in this section, CAO benchmarked PS2 against:

- ILO conventions.
- World Bank standards.[17]
- Standards at other MDBs, including:
    - The African Development Bank (AfDB).
    - The European Bank for Reconstruction and Development (EBRD).
    - The European Investment Bank (EIB).
    - The Asian Development Bank (ADB).
    - The Inter-American Development Bank (IDB).

KEY INSIGHTS

Section 3 · Performance Standard 2 benchmarked against the International Labour Organization and 6 peer multilateral development bank frameworks

- While IFC's Performance Standard 2 sets high-level principles for labor standards, its practical effectiveness is limited by the fact that it is less detailed and prescriptive than many peer multilateral development bank frameworks and International Labour Organization standards.
- Important labor protections—such as clear contract requirements, wage protections, limits on working hours, and termination rules—are either absent from Performance Standard 2 or not explicitly required by it, creating material gaps in worker protection.
- Performance Standard 2's heavy reliance on domestic legal frameworks, combined with stronger provisions housed only in a nonbinding Guidance Note, reduces the standard's overall strength and enforceability.
- By aligning Performance Standard 2 more closely with international standards—through clearer rules on wages, termination, freedom of association, and grievance mechanisms—IFC could position its own standard as a leading global benchmark.

17. Specifically, the World Bank's 2016 Environmental and Social Framework: https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ESFFramework.pdf.

By comparing PS2 with these conventions and standards, the benchmarking analysis aimed to learn whether certain labor issues are treated with greater clarity or specificity elsewhere—highlighting opportunities for IFC to strengthen PS2 and align it more consistently with international norms and global practice.

3.1 Contracts, wages, and terms of employment

Wages, contracts, and terms of employment play a large role in determining whether jobs reduce poverty and vulnerability or merely reproduce low-income, high-risk livelihoods. Wages are the main channel for most poor households to meet their daily needs and share in economic growth. Clear employment contracts and stable terms reduce the risk of sudden income loss and help households manage shocks. And decent working conditions—including safe workplaces, reasonable hours, nondiscrimination, and respect for core labor rights—support health, productivity, and human capital investment. Such conditions set the stage for inclusive, sustainable growth, as opposed to a cycle of low wages and high vulnerability.

IFC PS2 Requirements

For IFC clients, PS2 establishes three core requirements relevant to wages, contracts, and terms of employment:

- Employment terms must be documented, clear, and understandable.
- Working conditions and terms of employment must be "reasonable."
- Workers must not be subject to discrimination and retaliation.

> **Decent working conditions—including safe workplaces, reasonable hours, nondiscrimination, and respect for core labor rights—support health, productivity, and human capital investment**

In its current form, however, PS2 sets these requirements at a very general level.

A corresponding nonbinding Guidance Note provides additional specifics for IFC clients.[18] It recommends terms to include in contracts with workers, clarifies when terms should be communicated orally or in writing, sets contractual arrangements and record-keeping requirements, and includes measures to prevent disguised employment. It also sheds some light on what "reasonable" conditions should include and how they should be communicated to workers.

Benchmarking against ILO and MDB peers

Several MDBs' standards, including the World Bank Environmental and Social Framework, provide stronger treatment of employment benefits and conditions than IFC's PS2 does. In particular, they provide clearer requirements for written contracts and a fuller specification of employment terms. Many MDBs also set clearer standards that require employment terms to be effectively communicated to workers.

- ADB goes further than IFC's PS2 by requiring that information be provided in a manner that is clear and understandable, including through accessible and locally appropriate forms of communication.
- EBRD, IDB, EIB, and AfDB all explicitly reference leave entitlements and related employment conditions as minimum contract requirements.
- ADB, EBRD, EIB, and AfDB are more concrete and prescriptive than IFC's PS2 in defining what constitutes reasonable terms and conditions.
- EIB requires that overall wages, benefits and conditions are at least comparable to those offered by equivalent employers in the relevant country, region, and sector concerned. It also requires that wages be fair and consistent with national minimum thresholds. And it explicitly prohibits informal or disguised forms of employment.

Several MDBs (ADB, EBRD, EIB, and AfDB) include stronger safeguards than those of PS2 on regular payment and wage deductions. They require wages to be paid regularly and on time. They limit

18. For the full text of the PS2 Guidance Note see https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-ps-guidance-note-2-en.pdf.

deductions to those permitted by law. And they require that deductions be clearly communicated to workers. In addition, the benchmarking analysis found that:

- EBRD and ADB require that workers be provided with itemized pay information and employers maintain accurate up-to-date records.
- AfDB, EBRD, and ADB require notice of termination, details of severance, and payment of all wages, benefits, and entitlements prior to termination.
- On overtime, EBRD and IDB provide a stronger standard than PS2 by explicitly requiring that it be voluntary.

For nonstandard forms of employment, ADB specifies that contracted workers performing essential project functions should receive protections equivalent to direct employees.

Other MDBs generally articulate a wider range of grounds that are protected from discrimination than PS2—including political or other opinion-related and union-related activities.

PS2 Benchmark Gaps

In several areas, PS2's treatment of wages, contracts, and terms of employment lacks the explicitness and specificity of other MDBs' requirements. Specifically, PS2:

- Does not include explicit requirements for written employment contracts or for minimum contract content.
- Does not mandate clearly defined employment terms regarding wages or benefits.
- Does not prohibit unilateral changes to employment contracts.
- Does not require worker consent when contract terms are altered.
- Does not include enforceable requirements that clients provide accurate written information to workers on employment type (such as standard or temporary), on worker classification (such as employee or consultant), or on other matters such as wages or working-time records.

In short, PS2 articulates principles, but it does not elaborate with particulars. It lacks specific safeguards or guardrails for critical labor rights issues including weekly limits on working time, employee termination, wage deductions, payment timing, minimum wage, and job security. Its retrenchment provisions address only collective retrenchment. On fair treatment and protection from retaliation, PS2 does not explicitly address reprisals against workers raising concerns, nor does it clearly prohibit retaliatory termination or other adverse actions linked to such complaints. True, PS2's discrimination provision addresses differences in employment terms and conditions, in hiring, and in disciplinary practices. Yet it leaves unaddressed several important forms and types of discrimination, such as those based on marital status, health, and economic status.

Opportunities for IFC and the Multilateral Investment Guarantee Agency (MIGA)

Despite many areas of alignment and stronger provisions across MDBs, several areas relevant to job quality are not fully addressed by any current MDB frameworks. These areas—if addressed in a PS2 update—could present IFC with an opportunity to lead the way.

FIGURE 3.1

Opportunities for IFC and MIGA—Wages & Contracts

Key opportunities to strengthen Performance Standard 2 arising from benchmarking against peer multilateral development banks and International Labour Organization standards

- **Termination guardrails:** valid grounds, due process, notice, severance, and access to remedy (ILO Conv. 158)
- **Stronger wage protections:** regular payment and fair, adequate wages beyond legal minimums
- **Better job security:** limit indefinite temporary/subcontracted arrangements and support pathways to secure employment
- **Explicit nonretaliation rule:** prohibit threats, intimidation, and reprisals against workers exercising their rights, raising concerns, and seeking information

LEADERSHIP OPPORTUNITY
These areas are not fully addressed by any peer multilateral development bank—incorporating them would position IFC as a global leader in labor standards.

Source: CAO Report team 2026.

IFC's Performance Standard 2 articulates principles, but it does not elaborate with particulars. It lacks specific safeguards or guardrails for critical labor rights issues and leaves unaddressed several important forms and types of discrimination

Four specific opportunities stand out:

1. IFC could articulate clearer termination guardrails, drawing on ILO Convention No. 158, including requirements for valid grounds for termination, due process, notice, and access to remedy, to ensure worker dismissals are not arbitrary.
2. Building on EIB standards, PS2 could stipulate stronger wage protections, including reference to payment regularity and fair and adequate wages that go beyond minimum legal thresholds.
3. IFC could strengthen PS2's job security safeguards—including provisions to prevent the indefinite use of temporary contracts and subcontracted employment relationships that reduce workers' rights and benefits—and introduce the progression or regularization of pathways to secure employment.
4. PS2 could include a standalone nonretaliation provision, explicitly prohibiting threats, intimidation, or reprisal against workers for raising concerns, seeking information, or exercising their rights in relation to terms of employment and working conditions.

3.2 Freedom of association and collective bargaining

Freedom of association (FoA) and collective bargaining are recognized by the 187 member states of the ILO as fundamental principles and rights. Particularly relevant are ILO Convention 87 (on Freedom of Association and Protection of the Right to Organise) and ILO Convention 98 (on the Right to Organise and Collective Bargaining).

According to the ILO, collective bargaining—the process whereby worker organizations negotiate with employers over issues such as wages, hours, occupational health and safety, and equal treatment—is an essential part of FoA. Together, these "enabling rights" help workers to identify problems and to secure fair wages, safe and healthy working conditions, and protection from abuse.

IFC PS2 Requirements

PS2 adopts a framework for FoA and collective bargaining that addresses workers' organizations and is anchored primarily in national law and in obligations of noninterference by the IFC client. Where domestic law recognizes these rights, PS2 requires compliance with that framework and respect for existing collective bargaining agreements. In contrast, where national law restricts FoA, PS2 requires clients:

- Not to restrict workers from developing alternative mechanisms to express grievances and protect their rights regarding working conditions and terms of employment.
- Not seek to influence or control these mechanisms.

Across all legal contexts, PS2 also prohibits discouragement, discrimination, and retaliation against workers engaging in organizing activity, and it requires clients to engage in good faith with worker representatives.

The Guidance Note adds substantial operational clarity. It explains that workers' organizations must be freely chosen and not employer- or state-controlled. It stipulates that the employer must engage with worker organizations, must negotiate with workers in good faith, and must implement and administer any agreements that result from collective bargaining and dispute resolution. And it provides more concrete illustrations of prohibited employer conduct and specifies enabling conditions for FoA. These enabling conditions include representative access, on-site meetings at appropriate times, and the use of freely chosen committees or elected representatives where national legal systems are restrictive or silent.

These elements materially strengthen PS2's practical application at the project level. Nevertheless, they sit outside IFC's mandatory requirements.

FIGURE 3.2

Opportunities for IFC and MIGA—Freedom of Association

Key opportunities to strengthen Performance Standard 2 arising from benchmarking against peer multilateral development banks and International Labour Organization standards

- **Prohibit employer interference:** in worker organizations and representative bodies
- **Guarantee access for worker representatives:** to workplaces and workers
- **Require enabling conditions for freedom of association:** including space for workers to meet and organize safely.
- **Explicit nonretaliation rule clause:** covering threats, intimidation, dismissals, demotions, discrimination of workers involved in organizing or collective bargaining or other reprisals related to freedom of association
- **Protect the independence of worker representation mechanism:** including prohibition of employer-dominated committees or parallel bodies

LEADERSHIP OPPORTUNITY
These areas are not fully addressed by any peer multilateral development bank—incorporating them would position IFC as a global leader in labor standards.

Source: CAO Report team 2026.

Benchmarking against ILO and MDB Peers

EBRD, AfDB, EIB, and IDB provide strong FoA standards: borrowers must allow workers to freely form, join, and participate in workers' organizations, to engage in collective action, and to elect representatives. Where national law is inconsistent, AfDB and EIB require borrowers to make every reasonable effort to act consistently with safeguard requirements or ILO standards. And EBRD, EIB, and IDB explicitly require that workers be informed of their rights to elect representatives, form or join worker organizations, and engage in collective bargaining. EIB further links its framework explicitly to ILO Conventions 87 and 98.

The World Bank, ADB, and IDB frame FoA and collective bargaining as explicit objectives of their labor standards, giving these rights greater interpretive weight. Notably, ADB consistently embeds nonretaliation and nondiscrimination provisions across all legal contexts, regardless of whether national law recognizes, restricts, or is silent on FoA. EIB provides stronger safeguards against employer influence or employer control over alternative worker representation mechanisms than PS2, and it requires more robust and meaningful engagement with worker representatives.

> **PS2 could require that workers be informed of their rights to elect representatives, to form or join worker organizations, and to engage in collective bargaining**

PS2 Benchmark Gaps

The benchmarking analysis highlights a number of weaknesses in PS2 compared with other MDBs with respect to workers' FoA and collective bargaining rights.

- PS2 remains heavily dependent on national law, even where domestic legal frameworks are weak, restrictive, or not fully aligned with international labor standards.
- Although PS2 prohibits interference, discrimination, and retaliation, it does not operationalize these protections in its mandatory requirements for IFC clients with sufficient procedural detail, such as by citing specific examples of prohibited practices (as noted in the Guidance Note).
- PS2 does not explicitly address access rights, recognition processes, union election integrity, or concrete safeguards against structural interference and anti-union practices.
- PS2 does not treat the use of retaliation, fear, and intimidation against workers as key risks to FoA enabling rights, requiring explicit preventive and remedial measures.
- PS2 does not adopt an affirmative approach to protecting FoA enabling rights by requiring clients to respect the independence of representative mechanisms and to inform workers of their organizational rights.
- Termination—used by employers as a disciplinary tool to suppress organizing activity—is not clearly prohibited by PS2, even though the Guidance Note identifies several such practices as examples of discrimination or retaliation.

Opportunities for IFC and MIGA

IFC's Guidance Note contains some important protections for FoA and collective bargaining that PS2 does not articulate but that are covered, in part, by standards at other MDBs. To strengthen PS2, IFC could:

- Move the key Guidance Note elements into PS2. Especially at issue are provisions for protection against employer interference, for access to worker representatives, for enabling conditions to permit the effective exercise of FoA, and for nonretaliation and nondiscrimination.
- Use ILO standards 87 and 98 as a principal reference point—following the approach taken by EIB and AfDB to complement national law.
- Require that workers be informed of their rights to elect representatives, to form or join worker organizations, and to engage in collective bargaining—following the approach taken by EIB, IDB, and EBRD.

Together, these changes would bring IFC's PS2 more closely in line with MDB practices and international norms—strengthening PS2's claim to be a global leading standard.

3.3 Workers' grievance mechanisms

Workers' grievance mechanisms (WGMs) are formal processes enabling workers and other affected people to safely raise concerns, complaints, or allegations about rights violations, and to seek remedy.[19] They establish a channel for reporting problems such as unpaid wages, harassment, or unsafe conditions, and they set out clear steps for investigation and resolution. Well designed and implemented—meaning that they are accessible, trusted, and effective—they can help identify issues early, prevent escalation and conflict, improve working conditions, and strengthen trust between workers and management.[20]

IFC PS2 Requirements

PS2 requires clients to provide a grievance mechanism for workers and their organizations on IFC-financed projects to lodge complaints and raise concerns. This mechanism must be communicated to workers at recruitment, remain easily accessible throughout employment, operate through an understandable and transparent process, and provide timely feedback. Grievance mechanisms must involve an appropriate level of management and prohibit retribution against workers who raise concerns.

Workers' grievance mechanisms can help identify issues early, prevent escalation and conflict, improve working conditions, and strengthen trust between workers and management

In addition, PS2 requires the accommodation of anonymous complaints, and it makes clear that project-level mechanisms are not substitutes for judicial, administrative, arbitral, or other mechanisms provided through collective agreements. For contracted workers, the client must ensure access to a grievance mechanism—and where third-party employers are unable to provide an adequate WGM, the client must extend its own mechanism to cover them.

The Guidance Note strengthens this PS2 framework for WGMs. It recommends:

- That grievance procedures be explained to workers as part of hiring documentation.
- That complaints be documented and followed up.
- That grievance committees include management and workers' representatives and confidentiality protections.
- That workers be allowed to raise concerns outside immediate supervisory lines—with consideration of diverse representation where tensions are related to gender or ethnicity.

The Guidance Note also suggests that clients provide communication and training—helping workers understand how to use the grievance mechanism, enabling them to be accompanied or represented during grievance discussions, and

19. WGMs typically coexist with other channels—including those managed through trade unions or collective agreements—that may represent or support workers in raising grievances.
20. See the United Nations Environment Programme Finance Initiative's Grievance Mechanisms Toolkit at https://www.unepfi.org/humanrightstoolkit/grievance-mechanisms/.

FIGURE 3.3

Opportunities for IFC and MIGA—Worker Grievance Mechanisms

Key opportunities to strengthen Performance Standard 2 arising from benchmarking against peer multilateral development banks and International Labour Organization standards

- **Require workers' grievance mechanisms to be safe, credible, and effective:** as an explicit core requirement
- **Strengthen worker awareness requirement:** through ongoing communications, clear explanation of procedures, and worker training
- **Recognize fear, threat, intimidation and reprisal:** as a core risk to grievance mechanism effectiveness—providing a standalone provision and requiring proactive mitigation of those risks in the grievance mechanism design and operation
- **Add explicit text to the standard:** related to confidentiality, access beyond line of supervisors, worker representation, documentation and follow-up, and special protection for sensitive complaints

LEADERSHIP OPPORTUNITY
These areas are not fully addressed by any peer multilateral development bank—incorporating them would position IFC as a global leader in labor standards.

Source: CAO Report team 2026.

ensuring that anonymous complaints can be submitted and resolved.

Benchmarking against ILO and MDB Peers

Peer MDB and ILO standards generally build on the same core elements as PS2. They go further, however, in defining what makes a WGM functional in practice. They also provide stronger protections from retaliation.

ILO standards emphasize that effective WGMs include four core features: accessibility, protection against retaliation, representation, and access to remedy.[21] The World Bank, ADB, AfDB, EIB, and EBRD link WGMs explicitly to protections against reprisal, threats, intimidation, and retaliation, and they also require workers to be informed of WGM protections.

The World Bank and AfDB require that WGMs operate in an independent and objective manner. ADB goes further by requiring WGMs to provide prompt and effective responses, to ensure accessibility and proportionality, to include representation of workers and their organizations, and to be regularly monitored and modified if a WGM is not responsive to workers' needs.

The EBRD and EIB explicitly require an effective WGM, and they strengthen worker participation and representation rights. The ADB, EBRD, and EIB also include more fully developed provisions for special protection measures when dealing with sensitive complaints, specifically for gender-based violence and harassment.

PS2 Benchmark Gaps

The benchmarking analysis reveals gaps in PS2's approach to WGMs. Most fundamentally, PS2 does not fully recognize that a WGM is functionally inaccessible if workers cannot use it safely. While prohibiting retribution, PS2 does not identify fear, intimidation, or retaliation as risks to a WGM's design and effectiveness—nor does it require clients to mitigate these risks proactively.

In addition, PS2 does not mandate that clients establish clear operational indicators of WGM independence, objectivity, or effectiveness. Such indicators would include responsiveness, follow-up, monitoring, and adjustments in cases where the mechanism is failing to serve workers. And PS2 does not address worker awareness and understanding with sufficient force. Although requiring communication at recruitment, PS2 does not require ongoing communication, clear explanation of procedures, or training.

> **Peer MDB and ILO standards go further than PS2 in defining what makes a WGM functional and provide stronger protections from retaliation**

21. See ILO Recommendation No. 130 on grievance procedures (https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R130); ILO Convention No. 190 (Art 10) on access to remedies (https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:3999810:NO); and ILO (2025) Tripartite Technical Meeting on Access to Labour Justice for All (https://www.ilo.org/meetings-and-events/tripartite-technical-meeting-access-labour-justice-all-prevention-and).

Opportunities for IFC and MIGA

A number of these shortcomings could be addressed by moving some of the existing Guidance Note content into PS2. In particular, the standard could be updated to include provisions for confidentiality, for worker access beyond immediate supervisors, for grievance committees with worker representation, for documentation and follow-up, for the communication of procedures, for worker training, for worker representation during grievance discussions, and for the making of practical arrangements to handle anonymous complaints.

IFC could also strengthen PS2 by adopting approaches taken by peer MDBs. It could require concrete measures to protect workers against reprisals. It could require grievance mechanisms to be operated in an independent, objective, and effective manner. It could require regular monitoring and modification where the mechanism is not appropriately responsive. And it could strengthen worker participation and representation rights, including through worker representatives and unions.

IFC could strengthen PS2 by requiring grievance mechanisms be operated in an independent, objective, and effective manner

PS2 could be strengthened still further with special protection measures and confidentiality channels for sensitive complaints—especially in cases involving gender-based violence and harassment. In strengthening its approach, IFC could draw on relevant ILO instruments that provide further guidance, including access to remedy.

Finally, IFC could position PS2 as a leading standard by adding a requirement that WGMs be safe, credible, and effective. Such a requirement would involve explicitly recognizing fear, retaliation, threats, and intimidation as core risks to grievance mechanism effectiveness. It would also mean establishing clear indicators of WGM functionality and effectiveness.

4 Assessing PS2 Implementation Challenges: Insights from CAO Cases

This section presents findings from the Compliance Advisor Ombudsman's (CAO) in-depth analysis of 12 cases—covering 10 International Finance Corporation (IFC) projects—that the compliance function managed over FY2013–24, with special attention to project-level oversight of IFC's Performance Standard 2 (PS2) requirements.[22] The analysis is intended to surface implementation lessons and recurring themes, rather than to provide a statistically representative assessment of IFC's portfolio. The cases provide a focused lens on how labor risks have emerged in practice and on recurring challenges in IFC's due diligence and supervision.

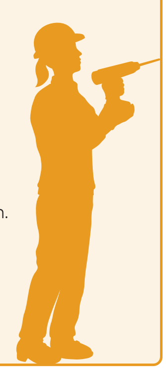
The section also draws on interviews with IFC and Multilateral Investment Guarantee Agency (MIGA) environmental and social (E&S) staff. These interviews were conducted to better understand current practices and to clarify challenges affecting the identification and management of labor risks. Together, the case analysis and interviews highlight challenges related to IFC's E&S risk identification during pre-investment due diligence—as well as to its oversight of clients' management of labor issues during supervision.

The insights in this section are backward-looking—though certain cases reviewed for this Note remain active. In addition, based on information provided during interviews and discussions, CAO acknowledges that IFC introduced a number of practice improvements in recent years to address some of the challenges identified here (at times in response to CAO compliance investigations).

KEY INSIGHTS

Section 4 · 12 compliance cases · 10 IFC projects · IFC and MIGA environmental and social staff interviews

- While IFC has a broad set of due diligence and supervision tools, CAO's findings and analysis suggest that those tools are applied unevenly—limiting the effective identification and management of labor risks.
- Country-specific contextual labor risks—including legal, social, and economic conditions—have not been systematically assessed, verified, or integrated into project-level risk assessments.
- Labor risk identification has not been applied consistently throughout the project lifecycle, in some cases remaining a one-off exercise at appraisal rather than being revisited as risks evolve.
- At times, IFC's overreliance on client-provided documentation has limited its understanding of actual labor practices, underscoring a need for verification through site visits, workforce engagement, and independent sources—both at pre-investment due diligence and during supervision.
- Workforce engagement and labor-focused site visits have been inconsistent and often constrained by time, by labor expertise, and by concerns about retaliation and safety, contributing to uneven practice.
- Supervision and risk management tools—such as environmental and social action plans and monitoring reports—have often lacked the specificity, adaptability, and follow-through needed to manage evolving labor risks.



22. The sample of 12 consists of compliance cases related to labor issues that either proceeded to investigation or were closed at appraisal. Note that multiple complaints can be associated with a single project. The 12 CAO cases included in this analysis concern only IFC projects approved on or after FY2014, starting July 1, 2013.

FIGURE 4.1

Advancements in IFC Practice

ADVANCEMENTS IN IFC PERFORMANCE STANDARD 2 PRACTICE (2012–PRESENT)
Based on interviews with IFC and MIGA environmental and social staff · IFC Environmental and Social Review Procedures Manual 2025

- **More systematic contextual risk screening**
  Expanded use of external labor sources; contextual risk scores feed concept notes.
- **More labor specialists at due diligence**
  Labor/social specialists consulted more systematically when risks are flagged.
- **Earlier labor specialist involvement**
  Specialists engaged earlier when red flags emerge (migrant labor, freedom of association, gender-based violence and harassment).
- **Local labor law expertise**
  Local labor lawyers used to support contextual risk screening in some regions.
- **Structured supervision planning**
  Annual regional supervision plans; risk-based prioritization of site visits & oversight.
- **Targeted environmental and social staff training**
  Regional training on labor risk flags and worker interview techniques.
- **Improved Annual Monitoring Report quality**
  More detailed labor questions; better data disaggregation (direct vs. contracted).
- **Stronger focus on workers' grievance mechanisms focus in supervision**
  Workers' grievance mechanism data captured in Annual Monitoring Reports to identify "bubbling issues" before they escalate.
- **More union & worker engagement**
  IFC engaging unions and worker reps at appraisal & supervision to triangulate data.
- **Expanded advisory support**
  More advisory & capacity-building for staff and clients; International Labour Organization collaboration explored.
- **New client obligations**
  Reporting covenants requiring anti-harassment and child protection policies.
- **Tools & training for new requirements**
  Staff trained and equipped to operationalize new requirements across all product types.

CAO's recommendations in Section 6 aim to build on this progress—recognizing that advancements have been made while identifying areas where further strengthening of IFC's practices, procedures, and standards is needed.

Based on CAO's interviews with IFC staff, figure 4.1 summarizes improvements introduced into practice since the Performance Standards were last updated in 2012. Many of these practices are outlined in IFC's 2025 Environmental and Social Review Procedures Manual, which guides IFC teams in reviewing the E&S risks of direct investments and financial intermediary projects.[23] CAO's recommendations in Section 6 aim to build on this progress by IFC.

4.1 Risk identification during pre-investment due diligence

To ensure clients' compliance with PS2, it is critical that IFC identify labor risks during E&S due diligence. New labor risks can arise as a result of changes to workforce composition, to contractor practices, and to the broader enabling environment—and such changes often occur more dynamically than other E&S risks. Early identification is therefore essential to create appropriate mitigation measures and supervision plans.

By reviewing CAO cases and project documentation, and through its interviews with IFC and MIGA E&S staff, CAO identified and analyzed labor risk identification challenges related to the three main issues covered in this Note. To conduct the analysis, CAO considered the application of key due diligence steps for risk identification, including contextual risk screening at concept and pre-investment appraisal, review of client documentation, appraisal site visits, workforce engagement, and labor-specific assessments and audits where relevant.

IFC's challenges to labor risk identification stem less from the absence of tools than from their inconsistent application, integration, and documentation. The findings point to a need for labor risk identification as a continuous process, requiring effective ongoing assessment and updating throughout the project lifecycle rather than primarily during appraisal (figure 4.2).

IFC could more effectively translate its risk management framework for robust and cohesive labor

23. See IFC's Environmental and Social Review Procedures Manual (ESRP) at https://www.ifc.org/en/insights-reports/2025/environmental-and-social-review-procedures-manual.

> **IFC's challenges to labor risk identification stem less from the absence of tools than from their inconsistent application, integration, and documentation**

risk identification at concept and appraisal and throughout supervision by:

- Clarifying expectations for early-stage screening.
- Strengthening verification and triangulation of client-provided information.
- Providing clearer guidance on the use of existing tools, such as labor-specific assessments and audits.

These steps are critical for mitigating labor risks throughout a project's lifecycle. As discussed below, the labor issues and risks identified during appraisal can then be addressed in project action plans that are binding for the client.

Contextual Risk Screening

Project adherence to standards depends not only on IFC clients' actions, but also on contextual factors largely outside their control. For labor and working conditions, these include national labor laws and enforcement, social and cultural norms, and political and economic conditions.[24] Such factors can support compliance—where practices or social norms align with PS2—or can impede it, even where clients demonstrate clear commitment to E&S performance.

National labor frameworks vary widely in substance and enforcement, and their alignment with PS2 and good international practice remains uneven. Despite widespread adoption of laws reflecting core International Labour Organization conventions, compliance is often undermined by gaps in coverage, by weak enforcement, and by sector-specific norms or informal practices—even where local legal protections exist.[25] And effective action can be limited further by broader social, economic, and political conditions, such as economic pressures, structural discrimination, and constrained civic space—particularly for vulnerable workers.[26]

Fully assessing and understanding these contextual factors is important for understanding project labor risks. CAO's review identified challenges in the integration of such risks into IFC's contextual risk screenings.

- In two of the four cases with labor risk identification issues, CAO's compliance investigations found that IFC did not fully consider well-documented national labor risks, including wage practices, retrenchment, and freedom of association.
- Contextual risk screening at the concept stage—where conducted—did not consistently flag potential labor risks that could have informed more in-depth appraisal.
- More broadly, project documentation available to CAO was often unclear about whether contextual risk screening had been conducted or how country context informed IFC's labor risk identification.

These findings point to opportunities for IFC and MIGA to strengthen their approach for identifying contextual labor risks to reshape early labor risk assessment and inform the scope and depth of subsequent project appraisal.

Assessment of Clients' Labor Policies and Procedures

CAO's case review identified weaknesses in how client-provided information was assessed. In all four cases with IFC shortcomings related to risk identification, CAO observed overreliance on client-provided documentation, with limited verification of whether documented labor policies and procedures were actually implemented or were aligned with national law and PS2 requirements.

Across all 10 projects analyzed, CAO found that IFC consistently reviewed client-provided documentation related to labor policies, practices,

24. A new WBG report discusses such constraints as "social and cultural norms, and legal and policy barriers, each operating at different levels but all reinforcing one another." See World Bank. 2026. *Women, Business and the Law 2026: Benchmarking Laws for Jobs and Inclusive Growth.* World Bank, page 4 (https://openknowledge.worldbank.org/bitstreams/4407cff6-6c6b-44cf-b89b-d1260f1a0700/download).
25. In Pakistan, for example, excessive working hours and low wages are very common despite a minimum wage law and regulated working hours. See: Pakistan Decent Work Country Profile 2019, International Labour Organization, 2020, available at: https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40asia/%40ro-bangkok/%40ilo-islamabad/documents/publication/wcms_771785.pdf.
26. Interviews with CAO Dispute Resolution specialists.

FIGURE 4.2

IFC Project Cycle—Key Environment and Social Touchpoints

Key stages of the IFC investment cycle and where labor due diligence, appraisal, and supervision actions are relevant

1 EARLY REVIEW/CONCEPT

- Preliminary identification of key environmental and social (E&S) risks and impacts, informed by contextual risk screening, sector risk, and country conditions
- Assign preliminary project risk category
- Identify any anticipated challenges in meeting the performance standards (including client track record, historical E&S performance)

2 APPRAISAL AND INVESTMENT REVIEW

- Conduct E&S due diligence via desk review, site visits, and engagement with stakeholders
- Identify gaps between current practice and Performance Standard (PS) requirements
- Develop a time-bound Environmental and Social Action Plan (ESAP) for any PS gaps, including cost estimates
- Conduct labor assessment or audit as appropriate
- Determine whether the client can reasonably achieve compliance within an acceptable timeframe
- Validate/refine project risk category
- Assess client commitment and capacity

3 BOARD APPROVAL AND COMMITMENT

- Summarize for the Board the key risks, mitigation measures, ESAP status, client capacity, and commitment
- Update ESAP to reflect any material changes
- Define any specific E&S requirements for legal agreement

4 DISBURSEMENTS

- Review compliance with E&S conditions of disbursement and ESAP items
- Document clearance or nonclearance of disbursement
- Prepare E&S justifications for any waiver requests as appropriate

5 SUPERVISION

- Annual supervision monitoring planning
- Ongoing E&S supervision—review Annual Monitoring Reports and ESAP implementation
- Conduct site visits and/or virtual visits, engaging key stakeholders
- Propose corrective actions and update ESAP as appropriate
- Provide client capacity support as needed

6 INVESTMENT EXIT

- Prepare E&S completion report, documenting ESAP status at exit.
- Conduct E&S analysis
- Conduct responsible exit analysis for active exits

Source: IFC Environmental and Social Review Procedures Manual (January 2025).

and procedures. Yet CAO found limited evidence that IFC had verified implementation in practice through, for example, site visits, meetings with workers and worker organizations, or triangulation with other information sources. IFC's use of these tools—especially audits and specialized labor assessments—was limited and inconsistent. In addition, interviews with IFC and MIGA E&S staff highlighted opportunities to strengthen internal procedures and systems for more effective verification of client-provided information.

To verify the accuracy and implementation of client-provided labor policies and procedures, due diligence is indispensable. IFC could strengthen such due diligence through regular workforce engagement, triangulation with independent sources, site visits that consistently assess labor risks, and more frequent formal labor assessments or audits (see below). Such steps are particularly important where contextual labor risks are identified at concept or appraisal—or where client operations are newly established at the time of appraisal, with only a limited workforce in place.

Labor Assessments and Audits

CAO's case review identified opportunities to strengthen IFC's use of labor assessments and audits as part of its E&S risk management approach. A labor assessment is a forward-looking analysis of a project's labor risks, designed to identify potential gaps between current practices and standards, with a focus on risk management and mitigation. By contrast, a labor audit is a verification-based examination designed to evaluate compliance with specific requirements. Labor audits were commissioned in only 2 of the 10 projects—both involving repeat clients with prior records of E&S performance challenges.

> **IFC consistently reviewed client-provided documentation related to labor practices—but CAO found limited evidence that IFC had verified implementation in practice**

Although labor assessments and audits are an important part of IFC's due diligence toolkit, IFC specialists cited constraints on their use, including:

- Limited guidance on when labor-focused assessments or audits should be conducted.
- Client cost and time implications.
- Limited oversight of audit methodology and quality.

Particularly for high-risk clients and clients with an established workforce, IFC could strengthen its understanding of labor risks and enhance its management practices—and avoid potential challenges during a project's life cycle—by more systematically commissioning or requiring labor assessments and audits, either at appraisal or at a later stage of the investment. For example, an audit can be included as an action in a client's Environmental and Social Action Plan (ESAP).

Site Visits and Workforce Engagement

Across all 10 projects reviewed, CAO observed limitations in how IFC's pre-investment site visits informed its broader identification of labor risks. Even though IFC reported conducting pre-investment due diligence site visits for 8 of the 10 projects, the project records generally did not specify whether the visits included specific labor issues—such as wages, terms of employment, freedom of association (FoA) concerns, or workers' grievance mechanisms (WGMs)—in their scope.

IFC and MIGA E&S staff emphasized the value of site visits for verifying information and identifying implementation-level labor risks, but they also noted that these visits were often constrained by limited guidance and labor-specific expertise, by time pressure, and by competing appraisal priorities. Similarly, evidence of workforce engagement by IFC during appraisal was limited, with such engagement explicitly documented in only one instance.[27]

For most of the 10 projects reviewed, the documentation reflected engagement with client management rather than with workers. And yet, 7

27. Although stakeholder engagement is primarily the client's responsibility, IFC's ESRP notes that during site appraisal visits, the E&S specialist will conduct an on-site inspection of the project's key components and area of influence; will interview client management, staff and contractors; and will meet with relevant stakeholders—including representatives of affected communities—to understand the capacity, maturity and reliability of the client's E&S management system and stakeholder engagement.

of those 10 projects were brownfield projects, with workforces in place at the time of appraisal.

IFC and MIGA E&S staff identified workforce engagement as one of the most informative practices for understanding grievance handling, FoA, and employment conditions. But CAO's review shows that such engagement remained uneven during appraisal, being prevented or constrained by the nature of investments—for example, in greenfield (as opposed to brownfield) projects—or by practical limitations. Such limitations include time, staff expertise, safety considerations, and the absence of structured guidance for staff, particularly for contexts where workers may fear retaliation.

4.2 Risk management challenges during IFC supervision

Effective mitigation and supervision of labor risks are essential to ensuring that client commitments during E&S pre-investment due diligence lead to PS2 compliance over the life of IFC's investment.[28] Through CAO's review of compliance investigation and project documents and through its IFC E&S staff interviews, challenges in this area appeared—especially for risks related to the three labor issues highlighted in this Note.

In assessing IFC's practices, CAO examined how labor risk mitigation, monitoring, and supervision were applied at the project level following appraisal. This examination included the development and implementation of ESAPs; the use of supervision tools such as site visits and Annual Monitoring Reports (AMRs); the use of third-party assessments where risks emerged; and IFC's client capacity-building efforts.[29] Together, these instruments and approaches are intended to support IFC's oversight of PS2 implementation by clients and to enable the timely identification and management of emerging risks throughout the investment's life.

When IFC's supervision plans, site visits, or monitoring requirements are not adjusted in response to early warning signs, opportunities may be missed to address labor risks proactively

CAO's findings indicate that challenges in labor risk mitigation and supervision stem less from the absence of tools than from how existing instruments are applied, sequenced, and enforced. While IFC's supervision framework provides flexibility to respond to evolving risk profiles, this flexibility is not always exercised. In situations where IFC's supervision plans, site visits, or monitoring requirements are not adjusted in response to early warning signs—such as workers' grievances, workforce changes, or contextual developments—opportunities may be missed to address labor risks proactively.

More consistent use of the flexibility embedded in IFC's supervision processes could support earlier intervention—and more effective management of labor risks before issues escalate.

Environmental & Social Action Plans

When due diligence identifies E&S risks prior to an investment—including labor-related risks—IFC's chief tool for ensuring that the risks will be addressed is the ESAP. Agreed between IFC and the client, the ESAP contains risk mitigation measures that are timebound and contractually binding upon the client, so as to bring projects into compliance with relevant Performance Standards.

For 8 of the 10 projects that CAO reviewed, the ESAPs framed labor-related mitigation measures at a high level—often focusing on commitments to develop or update labor policies or systems—without specifying sufficiently detailed parameters

28. Paragraph 28 of the Sustainability Policy provides that environmental and social due diligence typically includes, among other things, analyzing the business activity's environmental and social performance in relation to the requirements of the Performance Standards and provisions of the WBG Environmental, Health and Safety Guidelines or other internationally recognized sources, as appropriate; identifying any gaps therewith; and corresponding additional measures and actions beyond those identified by the client's in-place management practices. To ensure the business activity meets the performance standards, IFC makes these supplemental actions (ESAP) necessary conditions of IFC's investment. See IFC's Policy on Environmental and Social Sustainability at https://www.ifc.org/content/dam/ifc/doc/mgrt/sp-english-2012.pdf.
29. AMRs are client-prepared reports submitted periodically to IFC to monitor E&S, labor, and governance performance during project implementation. They are a core supervision tool used to track compliance with the Performance Standards and ESAP commitments and to identify emerging E&S risks. The requirement to submit AMRs is generally embedded in the investment agreement between IFC and the client.

for implementation. Where project labor risks were identified, ESAP actions lacked operational specificity, particularly for risks related to wages, terms of employment, FoA, and WGMs. In addition, two CAO investigations found that gaps identified at appraisal were not reflected in proportionate mitigation measures—limiting the ESAPs' effectiveness for risk management, and limiting IFC's leverage with the client.

When ESAP actions are framed as broad policy commitments—rather than as measurable deliverables with clear actions and parameters—they do not provide strong accountability, verification, or escalation. Such vagueness weakens IFC's supervision and influence with the client.[30] It thereby increases the likelihood that material PS2 gaps will persist through a project's life—being addressed only reactively, after risks have materialized or grievances have surfaced.

Client Documentation and Reporting and IFC Supervision Site Visits

In four of the compliance cases reviewed, CAO observed continued overreliance on client-provided documentation during supervision—with limited verification of whether labor policies and procedures were implemented. Although IFC in each case reviewed updated client policies following the identification of labor-related issues during supervision, it did not consistently assess how the client put agreed changes into practice or whether it ultimately complied with national law and PS2 provisions.

In short, IFC was not able fully to evaluate the effectiveness of labor-related mitigation measures. For example, in one compliance investigation, CAO found that IFC failed to collect information on its client's implementation of FoA-related PS2 requirements—yet CAO found related indications of harm for complainants.[31]

> **ESAP actions without clear actions and parameters do not provide strong accountability, verification, or escalation, weakening IFC's supervision and influence**

For client reporting to IFC on labor issues, CAO's review identified inconsistencies in monitoring and reporting. In particular, AMRs did not consistently include structured or detailed reporting on wages, employment terms, or FoA—limiting their usefulness for tracking labor risks over time. While workers' grievance mechanisms were routinely referenced, reporting was often descriptive rather than focused on effectiveness or outcomes. These CAO findings highlight an opportunity for IFC to require clients to strengthen and adapt AMR content as risk profiles evolve during supervision.

For 8 of the 10 projects reviewed, IFC conducted supervision site visits—yet the related project documentation available to CAO was unclear on whether labor issues were examined in depth, and it was equally unclear on whether workforce engagement consistently formed part of IFC's supervision activities. In addition, interviews with IFC and MIGA E&S staff indicated that supervision visits are often constrained by the frequency of supervision determined by project categorization, time pressure, competing priorities, and limited availability of labor expertise. All these factors can reduce the depth of labor-related oversight.

Use of Labor Assessments and Audits

CAO's case review also considered IFC's use of third-party labor audits and labor-specific assessments as supervision tools. Such tools can support IFC's management of labor risks that emerge or persist after appraisal. In the cases reviewed, however, labor audits or third-party labor assessments were used in only two projects—and their use was reactive, following an identification of serious labor concerns, the lodging of a CAO complaint, or ongoing noncompliance with PS2 requirements.

In the two projects where labor audits or labor-specific assessments were commissioned, they provided IFC with more detailed insight into labor

30. See the recent CAO report on leveraging IFC's influence: https://www.cao-ombudsman.org/resource/leveraging-ifcs-influence-enhance-environmental-and-social-es-outcomes.
31. Indications of harm arise from prolonged restrictions on union access and delayed collective bargaining, which significantly impaired workers' ability to organize and be represented. These conditions likely deterred union participation and reduced opportunities to collectively address wages, benefits, and working conditions, with adverse impacts on workers' rights, fairness, and equity in practice.

> **Capacity-building efforts are often embedded informally within IFC's risk management processes but not always clearly documented, structured, or linked to identified labor risks**

management practices, including implementation gaps related to wages, working hours, FoA, and WGMs. Yet CAO observed that overall, the use of labor audits during supervision was limited and uneven, and that it did not appear to follow a clearly articulated, risk-based approach across projects subject to CAO cases.

These findings suggest an opportunity for IFC to integrate labor audits and labor-specific assessments more strategically into supervision —particularly for projects where labor risks evolve over time, or where earlier mitigation measures have not achieved intended outcomes. Clearer guidance on when and how to deploy these tools, alongside other supervision instruments, could support earlier detection of implementation-level risks. And such detection would strengthen IFC's ability to respond proactively before labor-related issues escalate.

Client Support and Capacity Building

CAO's findings point to client capacity building as a complementary element of effective labor risk mitigation and supervision. Across the projects reviewed, CAO could not consistently determine whether IFC undertook structured or targeted efforts to build client capacity in key labor risk areas, including wages and terms of employment, FoA, and WGMs. Evidence of capacity-building activities in project documentation was limited and uneven, with references focusing on ad hoc engagement or on general discussions during supervision. In one project, IFC supported a labor-related workshop—yet this engagement addressed PS2 requirements only at a general level, rather than focus on project-specific labor risks or implementation challenges.

Interviews with IFC E&S staff indicated that capacity-building efforts are often embedded informally within IFC's risk management processes, including dialogue with clients during ESAP preparation, supervision missions, and followup discussions. While these interactions can support client understanding of PS2 expectations, CAO's findings suggest that capacity-building efforts were not always clearly documented, structured, or linked to identified labor risks.

These observations suggest an opportunity for IFC to link client capacity-building efforts more deliberately to identified labor risks—particularly in projects implemented in challenging contexts or involving complex workforce arrangements. More structured, risk-focused capacity-building that is aligned with ESAPs and supervision could better support clients' implementation of labor commitments and compliance with PS2 requirements.

5 Global Developments: Persistent and Emerging Issues and Opportunities

The labor-related risks highlighted in this Note are unfolding against a rapidly evolving global context. Just in the past five years, labor markets and the nature of work have changed significantly—and they are expected to undergo further transformation in the near future.[32]

Several forces are quickly reshaping workplaces and the nature of work.[33] Technological advances are driving shifts in company business models and supply chains[34] and a growth in nonstandard forms of employment (NSEs),[35] including rapidly expanding platform work.[36] At the same time, rising costs of living have depressed real wages globally and compounded the challenge of wage levels, which were already often insufficient to meet workers' basic needs in many countries and sectors, and which have contributed to a slowdown in the reduction of working poverty.[37] In parallel with these developments, climate change is driving transitions toward greener economies that affect workers across related supply chains—while also creating new occupational health and safety risks for workers across sectors and regions.

Separately and together, these forces are eroding job stability and quality. Some of their effects are being addressed through new regulations in key jurisdictions[38] and through voluntary standards adopted by the private sector.[39] But despite these innovations, the regulatory and standards landscape remains

KEY INSIGHTS

Section 5 · Nonstandard forms of employment trends · Supply chain complexity · Wages · Climate impacts

- Globally, labor markets and jobs are evolving more rapidly than labor standards have been able to adapt to them. In particular, three trends have been exposing gaps in the existing standards:
  - Increases in nonstandard forms of employment and supply chain complexity can weaken worker protections.
  - Cost-of-living pressures erode wages' purchasing power.
  - Climate change impacts pose risks of harm to workers.
- Emerging labor market realities highlight a need to modernize IFC's Performance Standard 2—ensuring the standard's future effectiveness in ways that support IFC's and MIGA's role in the World Bank Group jobs agenda.
- The present moment offers IFC an opportunity for leadership in environmental and social standard setting.

32. *Future of Jobs Report 2025,* World Economic Forum: https://www.weforum.org/publications/the-future-of-jobs-report-2025/.
33. *Future of Jobs Report 2025,* World Economic Forum: https://www.weforum.org/publications/the-future-of-jobs-report-2025/.
34. *World Development Report 2020: Trading for Development in the Age of Global Value Chains* (https://digitallibrary.un.org/record/3850531?ln=en&v=pdf).
35. *ILO World Employment and Social Outlook 2019: Changing Business and the New Agenda for Work* (https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40dgreports/%40dcomm/%40publ/documents/publication/wcms_670542.pdf) and the World Bank's *World Development Report 2019: The Changing Nature of Work* (https://documents1.worldbank.org/curated/en/816281518818814423/pdf/Main-Report.pdf).
36. ILO Research Brief, February 2026, Digital labour platforms: Number of platforms and workers (https://www.ilo.org/sites/default/files/2026-02/Research%20Brief_Digital%20labour%20platforms_Number%20of%20platforms%20and%20workers.pdf).
37. *ILO Employment and Social Trends 2026* notes that in low-income countries both extreme and moderate working poverty increased by 0.7 percentage points between 2015 and 2025 (https://www.ilo.org/publications/flagship-reports/employment-and-social-trends-2026).
38. Such as the European Union and United States.
39. Mandatory due diligence is increasingly the norm across key jurisdictions. Examples include the EU's Corporate Sustainability Due Diligence Directive, Germany's Lieferkette gesetz, France's duty of vigilance law, and Canada's S-21. Alongside this mandatory due diligence are voluntary labor standards. See OECD's recent mapping of due diligence legislation: https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/04/mapping-of-social-and-environmental-due-diligence-legislation_6cf2c241/bac11241-en.pdf.

fragmented, with uneven coverage of key issues. This fragmentation presents a risk for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), in the form of inconsistent expectations and persistent regulatory gaps. Yet it also presents a strategic opportunity for IFC—to update its standards to help define and lead the adoption of coherent and effective standards.

5.1 Evolving and emerging issues relevant to job quality

Four significant labor issues are driven by the trends just noted—each affecting job quality, yet inadequately addressed by current IFC Performance Standard 2 (PS2) requirements. IFC could position itself as a leader by building on the updated standards adopted by other development finance institutions and aligning with leading practices and approaches already being applied by many private companies and responsible investors.

The Rise in Nonstandard Forms of Employment

NSEs have become increasingly widespread (figure 5.1).[40] The increase in workers in NSE affects virtually every sector and industry, from construction and manufacturing to technology, tourism, and hospitality. Accordingly, IFC's portfolio of investments may be highly exposed to this issue.[41]

NSEs broadly include workers who are temporary, on-call, or subject to multiparty arrangements or other precarious arrangements. Such arrangements can open doors to employment, support labor-market flexibility, and help firms and workers meet seasonal or fluctuating demand. But the rapid growth of NSEs can also widen protection gaps—especially where regulation does not extend core labor rights and protections across changing forms of employment.

Workers in nonstandard employment typically earn less; lack working-hour and overtime protections, job security, benefits, and occupational health and safety protections; and do not have freedom of association and collective bargaining rights

The vulnerability of workers in NSEs has been recognized in World Bank Group (WBG) publications—which have also shown that NSEs do not contribute to development as much as salaried jobs.[42] Workers in NSEs typically earn less than their counterparts in standard employment doing equivalent work. The NSE workers typically lack working-hour and overtime protections, job security, benefits, and occupational health and safety protections, and few of them possess collective bargaining and freedom of association rights.[43]

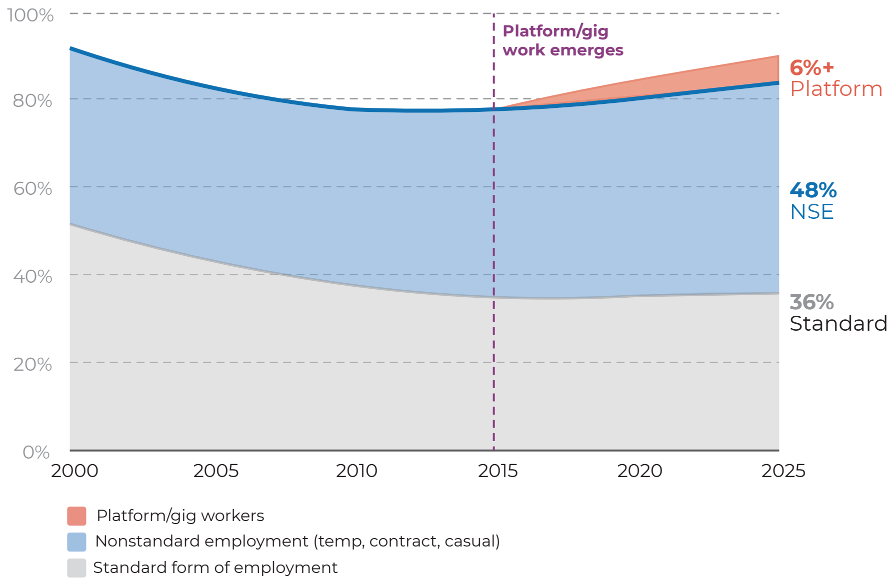
The rise of digital labor platforms has significantly expanded the NSE worker cohort.[44] Such platforms can diffuse accountability through the use of multiple intermediaries and cross-border transactions—presenting distinct regulatory gaps and monitoring challenges—and can be found in sectors and industries that are part of IFC's strategic focus.[45] Regulations and standards have not caught up with the increased use of NSEs generally or, in particular, with the rise of NSEs

40. Nonstandard employment around the world: Understanding challenges, shaping prospects, International Labour Office—Geneva: ILO. 2016; ILO Research Brief February 2026 Digital Labour Platforms: Number of Platforms and Workers.
41. The sectors with the highest IFC direct project financing exposure in 2024 were infrastructure (14 percent); manufacturing (8 percent); tourism, retail, and property (7 percent); and agribusiness and forestry (6 percent). A full 40 percent of IFC's portfolio comprises exposure to financial markets or to investments in financial intermediaries.
42. See, for example: Datta, Namita; Rong, Chen; Singh, Sunamika; Stinshoff, Clara; Iacob, Nadina; Nigatu, Natnael Simachew; Nxumalo, Mpumelelo; Klimaviciute, Luka. 2023. *Working Without Borders: The Promise and Peril of Online Gig Work.* World Bank. http://hdl.handle.net/10986/40066. License: CC BY 3.0 IGO.
43. European Trade Union Confederation (2026). *Platform Work Is Dangerous: Addressing Occupational Safety & Health Risks in the Platform Economy* (https://www.etuc.org/sites/default/files/publication/file/2026–02/ETUC%20Manual%20OSH.pdf).
44. The International Labour Organization has warned that fivefold growth of the "platform economy" (gig work) over the last decade has transitioned NSE from a marginal issue to a primary concern for labor regulators. See also *World Employment and Social Outlook 2021: The Role of Digital Labour Platforms in Transforming the World of Work* (https://www.ilo.org/publications/flagship-reports/role-digital-labour-platforms-transforming-world-work).
45. See "Unboxing Marketplace Fashion" on the rise of garment purchases made by consumers directly from third-party sellers. This trend affects worker protections and, more generally, supply chain transparency. https://labourbehindthelabel.org/wp-content/uploads/2025/07/Unboxing-Marketplace-Fashion-Report.pdf.

FIGURE 5.1

The Growing Use of Nonstandard Employment

Nonstandard forms of employment (NSE) workers as a share of global employment—an increasing global trend



More workers. Fewer protections. Greater vulnerability.

THE SCALE OF NSE

2B+

NSE workers globally

Of ~3.3B total in employment worldwide

61%

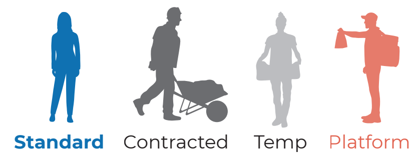
in NSE

Rising to 90+% in low-income countries

47%

of CAO labor complaints

involve NSE workers—contracted, temp, casual



Less visibility. Weaker protections.

Source: ILO World Employment and Social Outlook 2023; ILO Non-Standard Employment Around the World 2016; ILO Global Wage Report 2024.
Note: Values are indicative.

related to the expansion of digital platforms.[46] Many countries have not yet developed legislation that extends workers' rights to workers contracted by these platforms.

IFC's PS2 requirements lack specificity on the scope of their application to NSEs. By comparison, some other multilateral development banks (MDBs) state more explicitly that workers in NSEs must be covered by their labor standards.[47] IFC should consider adjusting how PS2 requirements are articulated and apply to different types of workers—as well as updating the principles on which the requirements are based—to ensure that labor protections extend effectively across various employment arrangements, NSEs, and digital platforms.

Workers in Supply Chains

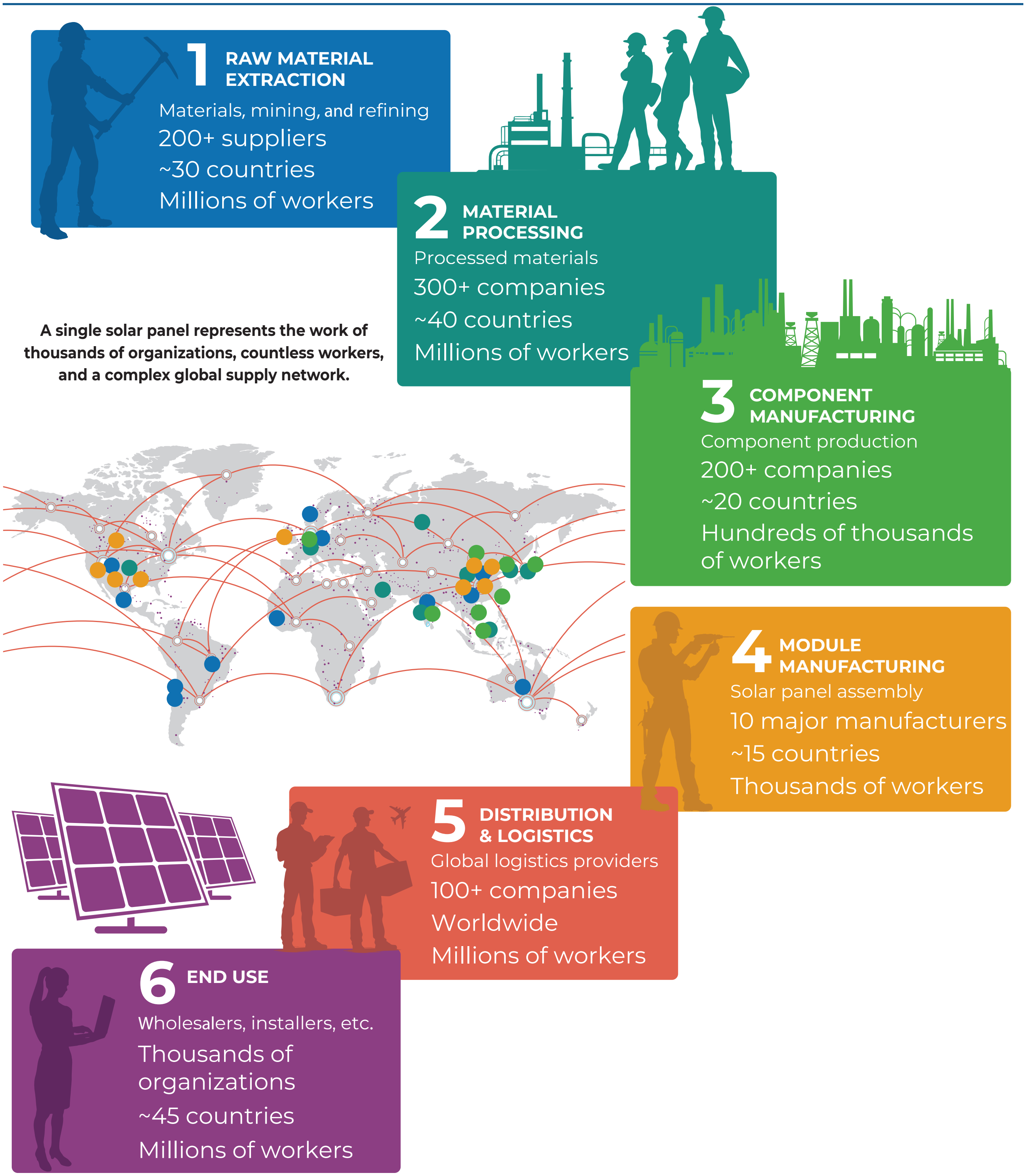
Supply chains have become increasingly complex, often spanning multiple countries and numerous actors (figure 5.2). They typically involve multiple tiers of workers, from smallholder farms and agricultural laborers to those employed by processors, manufacturers, and wholesalers. The number of workers in a company's secondary or deeper supply chain tiers is often orders of magnitude greater than the number employed directly by the company or in its primary suppliers.[48] Some companies have also shifted towards more transactional sourcing rather than longer-term relationships with suppliers.[49] These changes—particularly the lack of transparency, combined with pressure to keep costs low—result in the application of

46. A notable example of legislation, the EU's Platform Work Directive, took effect on December 1, 2024; EU member states had until December 2026 to implement it in their national laws, and to develop guidance for the classification of platform workers as independent contractors rather than employees. The directive provides EU member states with a unique opportunity to address concerns about the protection of workers' rights in the platform economy.
47. ADB and EBRD standards are clearer and more comprehensive on their scope and applicability to NSEs.
48. A primary supplier or primary tier in a supply chain is the direct first-tier network of suppliers that provide goods, materials, or services immediately to a firm. A company often has a direct contractual relationship with primary suppliers. Secondary and tertiary tiers include suppliers of suppliers that a firm may not directly contract with—or even know about. Labor risks are often concentrated in these deeper tiers beyond the primary supply chain, where they receive less scrutiny. https://www.imf.org/en/publications/fandd/issues/2022/06/the-stretch-of-supply-chains-b2b.
49. Evidence suggests that stable, long-term business relationships with lead buyers support improved compliance with standards. Compared with transactional relationships, longer-term relationships were linked to improved worker outcomes related to contracts, compensation, and workplace safety and health. See Münch, F. (2022). Sourcing Practices in the Garment Industry, The Root Cause for Poor Working Conditions. ILO-IFC Better Work Discussion Paper 45 (https://betterwork.org/wp-content/uploads/Discussion-Paper-45.pdf).

FIGURE 5.2

Supply Chain Complexity—The Hidden Workforce

Illustrative supply chain· Multiple tiers · Hundreds of organizations · Dispersed countries



standards to fewer workers, and they create conditions for the persistence of exploitative labor practices.

Several of IFC's strategic priority sectors—such as agriculture, infrastructure, mining, and value-added manufacturing—face heightened supply chain labor risks due to complex multi-tiered structures and to informal labor arrangements and worker vulnerability. IFC's current guidance on labor risks in the primary supply chain highlights these challenges. However, beyond a narrow range of egregious substantive issues (such as forced labor, child labor and significant safety issues), IFC's requirements and its definition of "primary supplier" exclude issues and workers in deeper tiers and in what may be considered "nonessential" suppliers for a client's core business.

Governments are recognizing the challenges. In key jurisdictions, firms are now legally required to comply with increasingly stringent supply-chain due diligence requirements. Globally, regulations and voluntary standards that apply to the entire supply chain are being adopted more widely.[50] Meanwhile, development finance institutions are giving greater attention to risk mitigation in the second tier and deeper into the supply chain—and they are expanding the scope of labor issues for which clients will be responsible, regardless of their degree of influence. The Organisation for Economic Co-operation and Development has noted, in its Guidelines for Multinational Enterprises on Responsible Business Conduct, that technological innovation has better enabled enterprises to conduct due diligence.[51]

> **While employment is the surest path out of poverty, wages must be sufficient to meet workers' and households' basic needs**

IFC should consider updating its labor due diligence practices and performance standards to require supply chain assessment beyond the primary tier. Strengthening these requirements could extend worker protections further across supply chains. It could improve labor risk mitigation across a wide range of sectors and regions, and it could align IFC with leading standards and trends.

Wages, Purchasing Power, and Poverty

Labor is the primary source of income for most households globally.[52] But while employment is the surest path out of poverty, wages must be sufficient to meet workers' and households' basic needs. Rising living costs continue to strain households worldwide, with particularly acute impacts in sub-Saharan Africa and Latin America—regions that made up more than 40 percent of IFC's portfolio in 2024.[53] Although wages have grown in many countries, they have typically not kept pace with rising costs for food, housing, transport, and other essentials.[54]

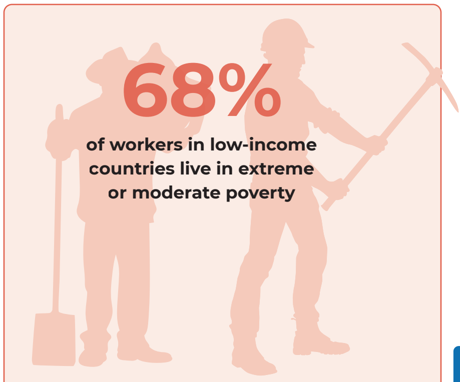
Both extreme and moderate working poverty rates have increased in low-income countries over the last decade: in 2025, almost 68 percent of those countries' workers lived in extreme or moderate poverty (figure 5.3).[55] Inflationary pressures are likely to grow as a result of the current rise in energy and fertilizer prices.[56] The deterioration of real, inflation-adjusted wages impacts vulnerable

50. Increasingly, large companies in Europe and North America operate under regulations that emphasize labor due diligence from end to end in the supply chain—along with corporate disclosure of these efforts. For example, the EU Corporate Sustainability Due Diligence Directive of 2023 applies supply chain due-diligence requirements for companies above a threshold based or operating in all 27 EU member states. Examples of substantive-relevant regulations include the EU's Critical Raw Materials Act (2024). For voluntary standards, companies representing over two-thirds of global market capitalization report according to the Global Reporting Initiative or the European Sustainability Reporting Standards (ESRS), disclosing information related to their due diligence process based on international standards of responsible business conduct (OECD, 2025). See https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/04/mapping-of-social-and-environmental-due-diligence-legislation_6cf2c241/bac11241-en.pdf.
51. See OECD Guidelines for Multinational Enterprises on Responsible Business Conduct at https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/06/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_a0b49990/81f92357-en.pdf.
52. ILO (2024). *Global Wage Report 2024–25: Is wage inequality decreasing globally?* (https://www.ilo.org/sites/default/files/2024-11/GWR-2024_Layout_E_RGB_Web.pdf).
53. For example, Sub-Saharan Africa has seen an increase in the cost of living of 24 percent since the start of the COVID-19 pandemic. See https://www.imf.org/external/pubs/ft/ar/2023/in-focus/cost-of-living-crisis. See also the IFC Annual Report 2024 at https://www.ifc.org/content/dam/ifc/doc/2024/ifc-annual-report-2024-accelerating-impact-en.pdf.
54. IMF (2023). *The Cost of Living Crisis* (https://www.imf.org/external/pubs/ft/ar/2023/in-focus/cost-of-living-crisis).
55. From 2005 to 2015, the number of workers living in extreme poverty declined by 15 percent. By contrast, the number of workers living in extreme poverty declined by only 3.1 percent between 2015 and 2025 (https://www.ilo.org/sites/default/files/2024-11/GWR-2024).
56. IMF (2023). *The Cost of Living Crisis* (https://www.imf.org/external/pubs/ft/ar/2023/in-focus/cost-of-living-crisis).

FIGURE 5.3

Wages, Purchasing Power, and Poverty

Rising costs of living are eroding real wages—working poverty is increasing, not declining



Employment is the surest path out of poverty, but only if wages are sufficient to meet basic needs.

Wages not keeping pace
Wages grew but failed to match rising food, housing and transport costs

Working poverty increased
Low-income countries 2015–25

40+% of IFC portfolio: Sub-Saharan Africa and Latin America
Most acutely affected regions

WHY THIS MATTERS FOR IFC

- Wages from a job are an important pathway out of poverty
- Real wages eroded by rising costs of living
- Performance Standard 2 (PS2) requires only minimum wage compliance
- ILO adopted living wage definition in 2024

OPPORTUNITY FOR IFC
Update PS2 to require wages no less than the national minimum, and explicitly require consideration of wage adequacy to meet workers' basic needs.

Source: CAO Report team 2026; ILO World Employment and Social Outlook 2025 (68% working poverty figure); ILO Global Wage Report 2024; IFC Annual Report 2024 (portfolio geography).

households disproportionately, putting more people at risk of poverty.

PS2 requires clients to comply with national laws, including minimum wage requirements—but it does not address the adequacy of those wages. As of 2024, the International Labour Organization (ILO) has defined a living wage and adopted methodological guidance for operationalizing the concept.[57] Although MDBs are discussing living wage standards,[58] none has yet adopted one.[59] The European Bank for Reconstruction and Development (EBRD), however, uses a method to determine wages that is consistent with the 2024 ILO Living Wage Resolution.[60] IFC and MIGA now have an opportunity to align PS2 more closely with the ILO and EBRD and help reduce working poverty[61] by updating PS2 to require explicitly that wages match or exceed national minimum wages, and to consider the adequacy of wages for meeting workers' basic needs.

Climate Change Impacts on Labor

The impacts of climate change on labor and supply chains will likely intensify.[62] Climate change impacts are already evident in the consequences for workers of heat stress—physiological exhaustion, multiple pathological conditions, and death. These impacts affect people in many countries and in a diverse range of work environments: more than 2.4 billion workers globally have already been affected, with more than 22.8 million related occupational injuries. For vulnerable workers, the impacts are particularly acute.[63]

The clean energy transition is increasing demand for critical minerals and accelerating investment in mineral extraction and processing globally. As mineral supply chains expand, labor risks may become more difficult to identify and manage, particularly in lower supply chain tiers. Without strong due diligence, risks such as hazardous working conditions, low wages, and forced and

57. See https://www.ilo.org/resource/news/ilo-reaches-agreement-issue-living-wages.
58. In 2024, the ILO Governing Body endorsed an expert definition of "living wage" and agreed to its operationalization through national systems consistent with C131 (minimum wage-fixing). See https://www.ilo.org/resource/news/ilo-reaches-agreement-issue-living-wages.
59. See the ILO-coordinated program supported by the Germany and Netherlands governments to promote the operationalization of a living wage, launched in April 2025: https://www.ilo.org/resource/news/first-ever-ilo-programme-living-wages-launched-heads-ilo-ituc-and-ioe.
60. See EBRD Guidance Note 2 on Labour and Working Conditions 2025: https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/environment---sustainability/implement-performance-requirements/esrs-2025/EBRD_Environmental_and_Social_Requirement_2_Guidance_note_Labour_and_working_conditions.pdf.
61. The ILO has worked to develop evidence on living wage levels at https://www.ilo.org/publications/economic-factors-wage-setting. WBG research has credited ambitious minimum wage increases in Mexico and China as the main drivers of historic reductions in poverty.
62. CAO cases where complainants have raised climate-related occupational health and safety issues include Benban 01–08.
63. World Health Organization (2025). Climate change and workplace heat stress technical report and guidance (https://iris.who.int/server/api/core/bitstreams/5334aba1–063d-4163–94ae-a1154bb48e83/content).

child labor may remain hidden within complex global networks.[64]

Climate change is expected to increase occupational health and safety risks—especially for workers in hot indoor or outdoor environments, and for those doing physically demanding work in sectors such as infrastructure, agriculture, and manufacturing.[65] IFC currently plans to expand its investments in these sectors, which already account for much of its portfolio. In particular, IFC has significant and growing investments in renewable energy—including solar, wind, hydropower, and geothermal—across all the regions where it invests.[66] To address the associated labor risks, IFC should strengthen due diligence and supervision requirements across renewable energy supply chains, from mineral extraction and processing to

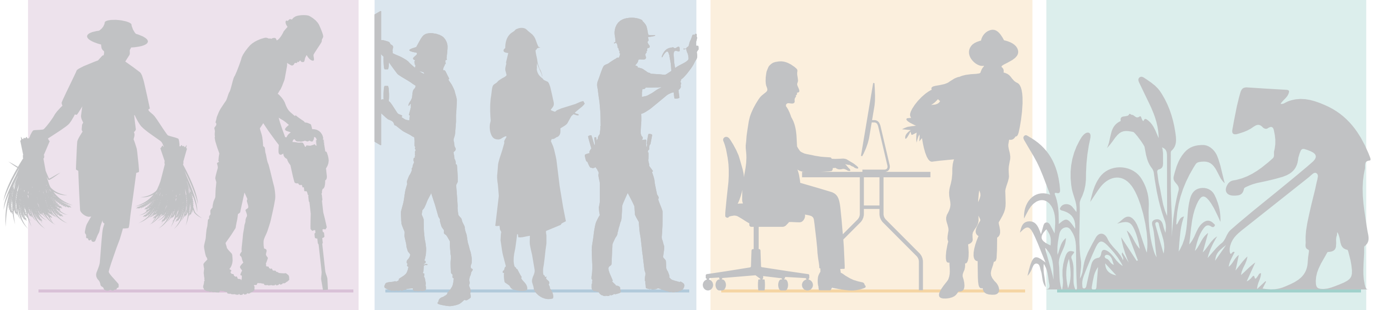
FIGURE 5.4

Positioning IFC as a Standard Setter in Labor and Working Conditions

Key opportunities arising from global developments and emerging labor issues

Opportunities for IFC and MIGA to Deal with Emerging and Evolving Issues

NONSTANDARD FORMS OF EMPLOYMENT	SUPPLY CHAINS & CONTRACTORS	WAGES AND PURCHASING POWER	CLIMATE IMPACTS ON LABOR



NONSTANDARD FORMS OF EMPLOYMENT

- **Clarify and expand the scope of application:** Performance Standard 2 (PS2) protections apply across nonstandard forms of employment, including temporary, on-call, multiparty, and digital platform work
- **Ensure labor protections follow workers across changing employment relationships,** rather than depending on formal employment status

SUPPLY CHAINS & CONTRACTORS

- **Expand labor due diligence beyond primary suppliers** to deeper supply chain tiers
- **Broaden coverage beyond a narrow set of egregious harms** to address wider labor risks in complex supply chains
- **Strengthen critical mineral supply chain due diligence:** addressing hazardous conditions, low wages, forced and child labor risks

WAGES AND PURCHASING POWER

- **Require wages to be at least no less than the national minimum wage**
- **Require consideration of wage adequacy relative to workers' basic needs,** to better address working poverty and declining purchasing power

CLIMATE IMPACTS ON LABOR

- **Strengthen labor due diligence across renewable energy and critical mineral supply chains** to address emerging risks in the green transition
- **Integrate climate-related labor and occupational health and safety risks more explicitly into PS2 and due diligence,** especially heat stress and other workplace hazards

STRATEGIC LEADERSHIP OPPORTUNITY

Emerging regulations in key jurisdictions—European Union Corporate Sustainability Due Diligence Directive, Organisation for Economic Co-operation and Development Guidelines—are moving in this direction. Updating PS2 would position IFC as a global standard setter and aligns with the growing mandatory due diligence frameworks in key jurisdictions where IFC clients operate.

Different work. Shared vulnerability. One opportunity to lead.

64. See International Energy Agency (2023). *Sustainable and Responsible Critical Mineral Supply Chains: Guidance for Policy Makers* (https://iea.blob.core.windows.net/assets/7771525c-856f-45ef-911d-43137025aac3/SustainableandResponsibleCriticalMineralSupplyChains.pdf).
65. By 2030, the equivalent of 2–5 percent of working hours worldwide are projected to be lost to climate change—either because it is too hot to work, or because workers have to work at a slower pace. See also *Ensuring Safety and Health at Work in a Changing Climate,* International Labour Office, 2024: https://www.ilo.org/sites/default/files/2024-07/ILO_SafeDay24_Report_r11.pdf.
66. IFC is one of the largest multilateral investors in renewable energy in emerging markets. In recent years, IFC invested about $3–4 billion annually to climate-related investments, with renewable energy comprising a significant share. IFC plans to increase its mobilization of private capital towards these investments. IFC-invested projects are found in Sub-Saharan Africa, South and Southeast Asia, Latin America, and Eastern Europe.

component production—ensuring that its investments support job quality in this expanding sector and in the new activities that accompany it.

While the regulatory landscape is evolving rapidly, it remains fragmented, with persistent gaps especially in producer-country standards and inspections.[67] Severe labor abuses have occurred in extraction and producer-countries.

5.2 Opportunities for IFC and MIGA

The trends outlined here—from the growth of NSE and supply chain complexity to increased living costs and climate-related occupational risks—are reshaping job quality worldwide. Many of these dynamics are global and structural and are beyond IFC's and MIGA's control. Even so, IFC and MIGA can influence how private sector employers respond—by updating PS2 to reflect these evolving and emerging issues, by providing targeted guidance and support to clients, and by mobilizing capital toward projects that demonstrably improve labor conditions (figure 5.4).

Many national standards and development finance institution frameworks fail to address the fragmented labor ecosystems and precarious forms of employment that are increasingly common today. By updating its labor standards, IFC can support job quality in the private sector where it invests.

The global and structural dynamics outlined here are reshaping job quality worldwide. IFC and MIGA can influence how private sector employers respond by updating PS2 to reflect these evolving and emerging issues

67. The EU is the most advanced in its requirements, including the EU Critical Raw Materials Act (2024), EU Battery Regulation (2023), EU Conflict Minerals Regulation (2021), and the EU Corporate Sustainability Due Diligence Directive (2024).

6 Recommendations

The Compliance Advisor Ombudsman's (CAO) analysis of cases reviewed for this Note—and its benchmarking of the International Finance Corporation's (IFC) labor standards against those of multilateral development bank (MDB) peers—suggest that IFC could improve its labor-related Performance Standard 2 (PS2) and its due diligence and supervision practice for labor.

Specifically, the benchmarking indicates that PS2's requirements lag those of IFC's MDB peers in relation to wages, contracts, and terms of employment, to freedom of association, and to workers' grievance mechanisms. Moreover, the cases reviewed and interviews conducted indicate that IFC sometimes applies its requirements insufficiently or inconsistently throughout project lifecycles.

These gaps and implementation challenges– as identified by the CAO analysis—can undermine IFC's and the Multilateral Investment Guarantee Agency's (MIGA) environmental and social obligations and its clients' compliance with the Performance Standards (PS). As a result, they may be impeding IFC's and MIGA's efforts to support the creation of quality jobs.

Indeed, IFC's update of its Sustainability Framework will provide a timely opportunity to consider strengthening IFC's and MIGA's labor standards, processes, and procedures in general—and PS2's requirements in particular. Based on the analysis that informed this Note, CAO provides recommendations for IFC and MIGA, with a focus on four key opportunities:

- Updating IFC's labor standards.
- Strengthening how labor risks are identified before investing in projects.
- Enhancing how IFC and MIGA work with clients to mitigate risks during project supervision.
- Strengthening the labor-related expertise of IFC and its clients.

CAO believes that these recommendations will provide a framework to better protect workers employed in IFC-financed and MIGA-guaranteed projects and help IFC play a leading role in global efforts to address persistent and emerging challenges in labor conditions. Doing so would also support the World Bank Group's broader jobs agenda.

Recommendation 1 Update IFC's Performance Standard 2

CAO's benchmarking of PS2 against peer MDB labor standards and requirements highlights areas in which PS2 could be strengthened and opportunities for IFC to play a leadership role. Some PS2 requirements are too general and not specific enough to operationalize key worker protections. Technological advances and global labor market evolution are also outpacing existing requirements in some areas, particularly for workers in nonstandard forms of employment and in supply chains.

By updating its standards to maintain alignment with peer institutions and address critical emerging issues, IFC can better position itself to manage labor risks and maintain its role as a market leader.

Update PS2 to address gaps and strengthen alignment with peer MDBs, ILO, and good international practice

PS2 updates should include requirements for:

- Explicit contracts for project workers, with clear guardrails on contract termination procedures—to ensure nonarbitrary dismissals, proper notice and recourse for workers, and basic employment protections for workers in nonstandard employment.
- Explicit provision of wages no less than those required by national minimum wage laws.

(continued)

Recommendation 1 Update IFC's Performance Standard 2 *(continued)*

- Affirmative freedom of association (FoA) obligations—including informing workers of their rights, explicitly allowing worker organization and collective action, and specifically prohibiting undue influence over representative mechanisms.
- Grievance redressal safeguards—including ensuring workers are aware of workers' grievance mechanisms and that the mechanisms are accessible, independent, and effective.
- Addressing the prohibition of threats and reprisals as a stand-alone provision.

In addition, IFC should consider where more explicit or operational requirements mandated by peers have improved clarity and operational outcomes.

Reflect emerging issues in IFC's update of PS2

The update should:
- Further clarify and expand the scope of application of key PS2 protections to workers in NSEs.
- Clarify client responsibilities in multiparty arrangements.
- Expand labor due diligence beyond primary suppliers to deeper tiers, using a risk-based approach.
- Require that wage adequacy be considered —and, specifically, that wages be at least comparable to those offered by equivalent employers in the same country or region and in the same sector.
- Incorporate climate-related occupational health and safety risks.
- Strengthen labor-risk due diligence in critical mineral supply chains.

Recommendation 2 Strengthen labor risk identification at due diligence

CAO's case analysis suggests that labor risks in IFC-financed projects may not always be fully identified at concept or appraisal—particularly where the risks are contextual, practice-based, or likely to emerge as the project evolves. Risk assessments may be incomplete, and their translation into binding mitigation measures may be weak, especially because of three factors:
- Heavy reliance on client-provided documentation.
- Limited triangulation with other information sources.
- Infrequent use of labor-specific assessments and audits.

To help IFC, MIGA, and their clients understand and address labor risks during appraisal and supervision—and that PS2 requirements are met—it will be important to strengthen early risk identification.

More systematically identify and integrate contextual labor risks into early screening and appraisal of proposed investments

The identification and integration of contextual risks should:
- Consistently encompass wage practices, FoA constraints, grievance-related retaliation risks, and anticipated workforce changes.
- Draw on existing risk identification tools and third-party information sources, such as labor assessments.
- Involve engagement with civil society organizations, and labor unions.
- Include increased collaboration with the World Bank by leveraging the Bank's extensive data, knowledge, and tools for more robust insights into contextual risks—and IFC and MIGA should coordinate with the Bank on what kind of support may be provided to governments for policy and institutional reforms.

(continued)

Recommendation 2 Strengthen labor risk identification at due diligence *(continued)*

Clarify when IFC E&S staff should require or commission labor-specific assessments or audits; and clearly set out requirements for these assessments' or audits' scope, quality, and follow-up, particularly for high-risk projects

Such high-risk projects include those involving:

- Large workforces.
- Heightened contextual risks.
- Extensive use of migrant workers.
- Labor-intensive projects in high-risk sectors.

Ensure reviews of client-provided documentation are complemented by additional forms of assessment

Such forms of assessment include:

- Appraisal site visits that consistently assess labor risks.
- More systematic engagement with client or sub-client workers, with competent worker organizations, and with worker representatives where feasible.
- Triangulation with relevant, independent information from credible sources.

Recommendation 3 Enhance labor risk mitigation and supervision

Findings across CAO compliance cases indicate a recurring pattern in which labor risks identified at appraisal were not always managed effectively through supervision, and that mitigation measures can lack sufficient detail and enforceability. Supervision tools such as Environmental and Social Action Plans, site visits, and Annual Monitoring Reports were sometimes applied in ways that did not capture early warning signs or labor risks that emerged as the workforce evolved. In addition, broad discretion and limited escalation guidance for IFC staff—and the low visibility of corrective actions because ESAPs were not updated or disclosed after updating—could weaken accountability for addressing labor risks.

Strengthening mitigation and supervision practices is important to prevent labor issues from persisting or escalating over the life of IFC's investments.

Increase the level of detail, adaptability, and disclosure of labor-related ESAP actions

Labor risks and client actions should be:

- Clearly defined with milestones, implementation expectations, and verification mechanisms linked to project phases, such as workforce expansion and contractor or subcontractor engagement.
- Effectively monitored, reassessed, and recategorized for risk as necessary.

ESAPs should also be updated and disclosed as needed for enhanced accountability and follow through.

Strengthen the management of retaliation, fear, and intimidation as cross-cutting labor risks

Specifically:

- Include clearer requirements for IFC and clients to identify red flags.
- Conduct timely and adequate prevention, monitoring, and mitigation.
- Limit repeat financing to clients that engage in such practices.

Use supervision site visits more strategically

Specifically:

- Align timing and scope with labor risk triggers, such as workforce ramp-up, contractor mobilization, grievance trends, or changes in national or sectoral context.
- Expand the use of digital tools and technologies to support project teams—including those who are not environmental and social (E&S) specialists—with due diligence and supervision.

(continued)

Recommendation 3 Enhance labor risk mitigation and supervision *(continued)*

- Explore collaboration with the ILO or with trade unions that already employ such technologies.

Clarify escalation pathways for labor risks

- To reduce reliance on individual judgment, define red flags that warrant specialist involvement, senior review, or intensified supervision.

Clarify and strengthen requirements and guidance for Annual Monitoring Report inclusion of labor elements

- Do so particularly for wages, contracts, and employment terms, for the freedom of associations, and for the effectiveness of workers' grievance mechanisms.
- Link clients' AMR contents more explicitly to follow up—with actions, site visits, audits, or other escalation, as needed.

Recommendation 4 Bolster IFC labor expertise and client capacity

CAO notes that the effectiveness of labor standards, including PS2, depends on country systems, legal frameworks, and enforcement capacity—factors which, in many contexts, may limit implementation despite well-defined standards. In addition, labor risks often require specialized expertise and sustained attention throughout the investment cycle—elements that are not always available within existing supervision models or workloads. Limited labor-specific capacity and inconsistent client support and guidance can also constrain IFC's ability to effectively identify, supervise, and influence inadequate labor practices.

Strengthening institutional capacity and expertise on labor risks—both within IFC and among clients—can improve project outcomes.

Clarify criteria for engaging labor-specific expertise during IFC's appraisal and supervision

- Do so in ways that specifically consider freedom of association, workers' grievance mechanisms, nonstandard employment, and retaliation risks.

Leverage local labor expertise through engagement and collaboration

- Engage and collaborate, particularly with government labor ministries—and with local labor lawyers and practitioners familiar with national systems.

Strengthen staff capacity through targeted training and guidance

Include knowledge-building and Environmental and Social Review Procedure provisions related to:

- Identifying project-specific labor risks.
- Analyzing country frameworks.
- Detecting labor risks in a site visit.
- Assessing the accessibility and effectiveness of WGMs.
- Criteria for commissioning labor assessments and audits.
- Assessing client documentation.
- Managing engagement with workers.
- ESAP/ AMR details and content.

Provide more structured client capacity-building support

- Do so particularly for wages and employment practices, for workers' grievance mechanisms, for identifying and mitigating retaliation risks, and for the freedom of association. Track outcomes over the project's life.

Annex A Methodology

Research for this Advisory Note (the Note) used a mixed methods approach. The CAO team:

- Carried out a desk review of CAO case and International Finance Corporation (IFC) project documentation.
- Reviewed relevant IFC policies and operational guidance related to Performance Standard 2 (PS2).
- Reviewed labor-related standards from other multilateral development banks (MDBs).

In addition, CAO conducted interviews with IFC Environmental and Social (E&S) staff and external labor experts.

Desk review—method and sampling

The Note was prepared in response to the prominence of labor-related complaints as a share of CAO-eligible complaints over two decades. Labor and working conditions are central to the achievement of IFC's and the Multilateral Investment Guarantee Agency's (MIGA) mandate and are directly relevant to the jobs agenda of the World Bank Group (WBG)—an agenda that promotes job creation while also emphasizing the quality and conditions of employment.

To ensure methodological rigor and allow for a comprehensive assessment before undertaking the detailed research for the Note, CAO conducted an initial scoping phase to help refine the focus of the analysis. This scoping drew on a review of CAO labor-related complaints, relevant literature, and stakeholder inputs to map a broad range of labor issues and underlying drivers. These issues were then assessed against specific criteria—including frequency in CAO cases, severity and scale of impacts on workers, strategic relevance to the World Bank Group's jobs agenda, and CAO's value proposition—to identify a limited number of priority focus areas. Based on this process, the Note addresses:

- Wages, contracts, and terms of employment.
- Freedom of association.
- Workers' grievance mechanisms.

Following the scoping phase, the research design for this Advisory Note was structured around a set of distinct but complementary research streams, each aligned with relevant research questions and designed to stem labor-related lessons learned from different analytical angles. These streams covered:

Research Stream I—CAO's Labor Caseload—focused on complaints where labor issues were raised by complainants at assessment between FY2013 and FY2024 (59 complaints)

This research stream examined the characteristics and evolution of CAO's labor-related complaints. It analyzed:

- The types of labor issues raised.
- The profile of complainants.
- The workers potentially affected.

The analysis also reviewed how labor complaints are distributed across IFC sectors, regions, environmental and social risk categories, project development types, and product types. Findings from this research stream are presented in Section 2 of the Note.

Research Stream II—PS2 Benchmarking—assessed IFC's labor standards and requirements through a comparative analysis

It compared the text of Performance Standard 2 with labor standards of IFC's MDB peers and with relevant International Labour Organization (ILO) conventions. The benchmarking exercise was designed to align with the scope of labor issues reflected in CAO complaints (the same 59 complaints that informed Research Stream I). Accordingly, it focused exclusively on the three key thematic areas examined in this note, rather than assessing PS2 exhaustively. The analysis focused on identifying areas of alignment, divergence, and gaps in scope, clarity, and requirements across frameworks for the labor issues covered in the Note. Findings from this research stream are presented in Section 3 of the Note.

Research Stream III—PS2 Implementation Challenges—drew on labor-related CAO compliance cases linked to IFC projects approved after FY2014 (12 CAO compliance cases)

This stream examined how IFC identifies, mitigates, and supervises labor risks in practice. Drawing on, it analyzed labor risk identification during due diligence, including contextual risk assessment, review of client documentation, use of third-party assessments, site visits, workforce engagement, and labor audits. It also examined labor risk mitigation measures, including the use of Environmental and Social Action Plans, contractual provisions, client systems and processes, and capacity-building efforts. In addition, this stream reviewed IFC supervision practices for labor issues, including monitoring schedules, site visits, client reporting through Annual Monitoring Reports, escalation mechanisms, and use of third-party monitoring during supervision. Findings from this research stream are in Section 4 of the Note.

Research Stream IV—Emerging Issues—examined global developments and emerging trends affecting labor and working conditions in IFC-financed projects

It focused on issues that are not fully addressed under the current PS2 requirements. The analysis covered four interrelated areas identified in the report:

- The growing use of nonstandard forms of employment.
- Labor risks in supply chains beyond the primary tier.
- Persistent challenges related to wage adequacy in the context of rising living costs.
- The impacts of climate change and the energy transition on workers and occupational health and safety.

Drawing on international labor standards, World Bank Group analysis of labor trends, and external data from external sources, this stream assessed how and where these developments impact IFC's exposure through its existing portfolio and strategic objectives for the future. It also examined where there are still gaps in regulations and voluntary standards and why these trends pose risks to workers. The research sought to identify opportunities to strengthen IFC's labor framework and support the WBG's jobs agenda. Findings from this research stream are presented in Section 5 of the Note.

The four research streams enabled CAO to examine labor risks and IFC practice from multiple, complementary perspectives. The combined use of complaint analysis, standards benchmarking, review of implementation experience in compliance cases, and assessment of emerging labor issues allowed CAO to identify recurring patterns, compare practices across project types, and situate case-level findings within broader institutional and sectoral contexts. This structured, multistream design supported consistent cross-case analysis and informed the identification of lessons reflected in the Note.

Sources reviewed

For each of the research streams, CAO analyzed a comprehensive set of CAO documentation, IFC project documentation, and external sources:

- ***Research Stream I—CAO's Labor Caseload:*** This research stream drew primarily on CAO case-related data and information. Data sources included CAO assessment reports, complaint letters, and CAO internal historical caseload datasets. In addition, publicly disclosed information related to IFC projects was used to extract project characteristics such as sector, region, and environmental and social risk categorization.
- ***Research Stream II—PS2 Benchmarking:*** The policy benchmarking stream was based on desk review of policy texts and standards. Data sources included IFC's PS2 and its Guidance Note, labor-related standards adopted by IFC's MDB peers, and ILO conventions and standards.
- ***Research Stream III—PS2 Implementation Challenges:*** Data sources for this research stream included CAO compliance appraisal and investigation reports and IFC environmental and social due diligence and supervision documentation such as: Project Data Sheet Concepts, Board Reports, Environmental and Social Review Summaries, legal agreements, investment review documentation, Environmental and Social Impact Assessments, Environmental and Social Action Plans, Annual Monitoring Reports, and other publicly disclosed project materials. The analysis under this research stream was complemented by interviews with IFC

Environmental and Social staff and a review of IFC's Environmental and Social Review Procedures and other internal E&S guidance documents.

- ***Research Stream IV—Emerging Issues:*** This research stream was informed by secondary research and external sources. Data sources include the following, as cited in section 5 of the Note:
  - International labor standards.
  - WBG analytical work on jobs, wages, non-standard employment, supply chains, and climate impacts on labor.
  - External reports and datasets.

Data collection

- ***Research Stream I—CAO's Labor Caseload:*** Over 50 structured data points were captured per complaint included under this research stream, spanning from basic case related information to more specific complaint information related to the type of labor-related issues raised by complainants.
- ***Research Stream II—PS2 Benchmarking:*** Data were collected through a structured review of IFC's PS2 and its Guidance Note, alongside comparator labor standards at selected peer MDBs and relevant ILO conventions as recognized sources of good international industry practices. Data extraction points captured specific policy language applicable to each thematic area, reflecting issues raised in CAO complaints, as well as the scope of coverage. Data entries included relevant PS2 provisions, corresponding provisions in comparator frameworks, reference to applicable ILO conventions, and comparative qualitative review notes identifying areas of convergence and divergence.
- ***Research Stream III—PS2 Implementation Challenges:*** Over 30 structured data points were captured for each one of the 12 compliance cases (and IFC investments) examined under this research stream. All of them refer to specific operational elements throughout IFC's project cycle (environmental and social due diligence and supervision).
- ***Research Stream IV—Emerging and Persisting Issues:*** CAO's labor caseload informed the initial selection of issues for treatment in this research stream. Since these are emerging issues with few CAO cases, case data were triangulated and supplemented with a review of recent literature and reporting. Sources for the literature review included standard setters such as ILO as well as WBG reports. Information on regulations and voluntary standards was drawn from ILO and Organisation for Economic Co-operation and Development information as well as a review of MDB peers' recent policy updates. Information on IFC's exposure was drawn from WBG Annual Reports and other regional or sector-based reports for recent fiscal years.

Sampling framework

The analysis for this Note drew on a defined and purpose-specific sample. The primary sample comprised 59 cases handled by CAO from FY2013 through FY2024 that were classified by CAO as labor-related. This sample formed the 'core sample' for this note's Research Stream I, which examined the trends and patterns in labor-related complaints presented in Section 2 of the Note. This sample also provided the basis for the analysis in Section 3 of the Note (PS2 benchmarking), as the labor issues and PS2 provisions benchmarked against other MDB peers and ILO stemmed from the issues raised by complainants in the core sample.

	Core sample	Deep dive sample
Description	59 cases handled by CAO classified as labor related	12 compliance cases classified as labor related
Number of IFC projects	33	10[68]
Date range	FY2013–24	FY2013–24
Corresponding research stream	Research Stream I—CAO's labor caseload	Research Stream III—PS2 Implementation Challenges
Section covering the analysis	Section 2: Patterns and Trends in CAO's Caseload	Section 4: Assessing PS2 Implementation Challenges

68. All approved on or after July 1, 2013.

For Research Stream III (PS2 implementation challenges), the analysis applied a more focused sampling approach, referring to a subset of complaints in Research Stream I. This stream drew on a subset of labor-related CAO Compliance cases (12) linked to IFC-financed projects (10) approved on or after FY2014 (deep dive sample). This targeted subsample enabled closer examination of IFC's labor risk identification, mitigation, and supervision practices in relation to current requirements and practices.

Interviews with IFC/MIGA staff

CAO held several consultations with IFC and MIGA E&S staff to check the veracity of the findings from the desk review and learn more about the evolution of PS2 implementation in practice.

Inputs from other experts

To provide further context for the Note's research findings and recommendations, CAO consulted with two expert advisors. Throughout the report development, CAO consulted with them based on their expertise in international labor law, labor policy, and applied research on labor standards, grounded in practical experience with IFC Performance Standards, ILO conventions, and the broader development finance institution (DFI) landscape.

The expert advisors were:

- Hans Hwang—Past work on ILO, Asian Development Bank, and World Bank Group.
- Sandra Polaski—Past work on ILO and US Department Secretary Labor Affairs.

Inputs from peer reviewers

CAO also received written feedback on the draft Note from a group of external peer reviewers with expertise in labor law, policy, and practice. Their comments helped verify the factual accuracy of the draft, test the robustness of the analysis, and strengthen the overall quality of the Note. The peer reviewers were:

- Janelle Diller, Geneva Graduate Institute, and Independent Counsel to Appleton Luff International Lawyers.
- Haidy Ear Dupuy, Unit Head, NGO and Civil Society Center,
- Sandra Polaski, Senior Fellow, Global Economic Governance Initiative at the Boston University Global Development Policy Center.
- Dan Rees, Director, Action Program on Decent Work in Supply Chains, International Labour Organization.
- Margaret Wachenfeld, Adjunct Professor of Human Rights Law, American University.

Annex B Existing IFC guidance relevant to labor and working conditions

The publicly available International Finance Corporation (IFC) guidance documents that are relevant to labor and working conditions include good practice notes, handbooks, guidance notes, and implementation tools that support, interpret, or operationalize IFC's Performance Standard 2 (PS2) and related worker welfare topics. All documents are nonbinding guidance rather than policy or compliance requirements.

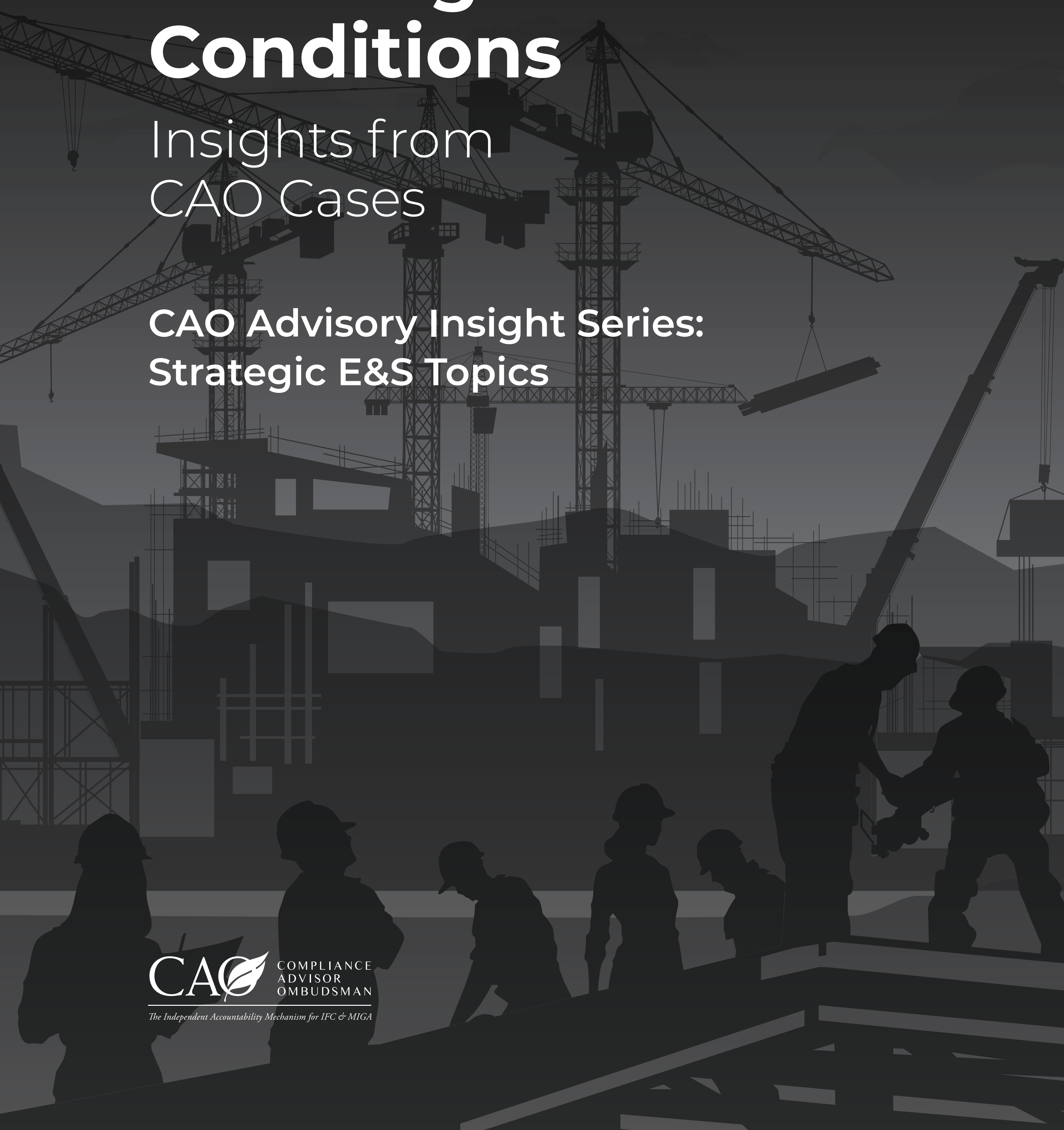
Guidance Title	Year	Focus
Good Practice Note: ***Addressing Child Labor in the Workplace and Supply Chain***	2002	Provide a range of good practice approaches for identifying, preventing, and remediating harmful child labor in operations and supply chain.
Good Practice Note: ***Addressing the Social Dimensions of Private Sector Projects***	2003	Guidance on social assessment, including labor-related social risks and mitigation measures, as part of IFC's environmental and social review process.
Good Practice Note: ***Managing Retrenchment***	2005	Guidance on planning and managing large-scale job losses, emphasizing consultation, fairness, mitigation measures, and community impacts.
Good Practice Note: ***Non-Discrimination and Equal Opportunity***	2005	Guidance on recognizing and addressing workplace discrimination, legal obligations, and practical measures to promote equal opportunity and diversity.
Stakeholder Engagement: ***A Good Practice Handbook for Companies Doing Business in Emerging Markets***	2007	Comprehensive handbook on stakeholder identification, consultation, grievance mechanisms, and engagement across the project lifecycle, including workers where relevant.
Labor Toolkit: ***A Practical Screening and Due Diligence Tool for Project Review***	2008	A practical tool to help IFC teams identify and assess labor risks during project appraisal.
Workers' Accommodation: ***Processes and Standards***	2009	Guidance on planning, construction, and management of worker housing, addressing health, safety, dignity, and privacy standards.
Addressing Grievance from Project-Affected Communities: ***Guidance for Projects and Companies on Designing Grievance Mechanisms***	2009	Guidance relevant to labor where community and worker grievance intersect (such as contractors and camps).
Measure and improve your Labor Standards Performance: ***Performance Standard 2 Handbook for Labor and Working Conditions***	2010	A detailed PS2 implementation handbook focused on labor management systems, internal capacity, worker engagement, and supply chains.

Guidance Title	Year	Focus
Guidance Note: ***Performance Standard 2: Labor and Working Conditions***	2012	Official IFC interpretive nonbinding guidance explaining objectives, requirements and operationalization of PS2.
Environmental and Social Management System (ESMS) Implementation Handbook	2014	Includes labor and working conditions modules supporting PS2 implementation.
Good Practice Note: ***IFC Live and Fire Safety: Hospitals***	2017	Companion technical guidance on life and fire safety for hospital facilities (relevant for worker and occupant safety).
Good Practice Note: ***IFC Life and Fire Safety: Hotels***	2017	Technical reference guidance on life and fire safety design and operational practices for hotels, supporting IFC investment decisions. Sector-specific briefs are provided.
Addressing Gender-Based Violence and Harassment: ***Emerging Good Practice for the Private Sector***	2020	Guidance on assessing, preventing, responding to, and monitoring GBVH risks in private-sector operations, with sector briefs and tools. Sector-specific briefs are provided.
Good Practice Note: ***Addressing Child Safeguarding in the Private Sector***	2020	Guidance complementing child labor prevention, focused on safeguarding children from abuse and exploitation linked to business activities.
COVID-19 Interim Guidance focused on: ***Supporting Workers and Preventing and Managing Health Risks in the Workplace***	2021	Interim IFC guidance addressing workplace health and safety, worker protection, and continuity measures during the COVID-19 pandemic.
Tip Sheet: ***How to Support Your Company to Establish and Manage a Worker Grievance Mechanism for Sexual Harassment***	2021	Provides practical guidance to help companies design, implement, and manage a workers' grievance mechanism specifically for sexual harassment.
Tip Sheet: ***How to Write and Implement an Employee Code of Conduct for Prevention of Sexual Exploitation and Abuse***	2021	Offers step-by-step guidance for developing and operationalizing an employee code of conduct related to sexual exploitation and abuse.
Tip Sheet: ***How to Write and Implement Workplace Policy for Prevention of Sexual Harassment***	2021	Supports companies in drafting and applying a stand-alone workplace sexual harassment policy, to prevent and address sexual harassment.
Good Practice Note: ***Addressing Child Safeguarding in the Private Sector***	2025	Provides good practice guidance for companies on preventing, identifying, and responding to risks of child abuse, exploitation and harm linked to business activities, operations, workers, contractors, and supply chains.

Labor and Working Conditions

Insights from CAO Cases

CAO Advisory Insight Series: Strategic E&S Topics



COMPLIANCE ADVISOR OMBUDSMAN

The Independent Accountability Mechanism for IFC & MIGA