

**CAO Dispute Resolution Conclusion Report  
Regarding a Complaint Related to IFC's Investment in Karot Power Company Ltd.  
(KPCL) (#36008) in Pakistan**

**September 2024**

**OVERVIEW**

In May 2022, the Compliance Advisor Ombudsman (CAO) received a complaint on behalf of eight people living in the Azad Jammu and Kashmir (AJK) local community (the Complainants), alleging unfair hiring practices by the Karot Power Company Limited (KPCL) (the Company). In June 2022, CAO determined that the complaint met its three eligibility criteria.

In accordance with the CAO Policy,<sup>1</sup> the complaint was referred to IFC at the Complainants' request. During the IFC referral process, the IFC project team acknowledged the complaint, engaged with the Complainants' representative, and engaged an expert to review KPCL's hiring process. The expert produced a report that, while identifying areas of opportunity for improvement, found no evidence of systemic discrimination. In March 2023, following the expert's findings, IFC informed CAO and the Complainants of its decision to end its engagement with the Complainants. In the same month, the Complainants expressed their desire for CAO to resume processing the complaint. CAO's assessment process began in March 2023. During this phase, CAO met with the Company representatives and seven of the Complainants. The Complainants identified three main issues: (1) unfair hiring practices, (2) unfair dismissals, and (3) forced resignations. The Complainants and the Company (the Parties) agreed to participate in a CAO-facilitated dispute resolution process.

The dispute resolution process began in August 2023, with capacity-building sessions aimed at preparing the Complainants and the Company to engage in a CAO-facilitated mediation. Between October 2023 and February 2024, the Parties held three joint sessions and 18 bilateral meetings to discuss the issues raised in the complaint and potential solutions. However, the Parties were unable to find mutually agreeable solutions. The dispute resolution process ended in May 2024. At the Complainants' request, the complaint is being transferred to CAO's Compliance function for appraisal, in accordance with CAO's Policy.

**BACKGROUND**

**The Project**

IFC has an active project (#36008) with KPCL, a special-purpose vehicle incorporated in Pakistan and majority-owned by China Three Gorges South Asia Investment Limited (CSAIL).<sup>2</sup> IFC is providing an A-loan of up to \$100 million for the construction, operation, and maintenance of a

<sup>1</sup> The CAO Policy is available at <https://documents1.worldbank.org/curated/en/889191625065397617/pdf/IFC-MIGA-Independent-Accountability-Mechanism-CAO-Policy.pdf>.

<sup>2</sup> See [IFC Disclosures](#)

720-megawatt (MW) run-of-the-river hydropower plant on the Jhelum River near Karot village, in Punjab, Pakistan.

### **The Complaint<sup>3</sup>**

In May 2022, CAO received a complaint from the president of the Karot Dam Action Committee in Pakistan on behalf of eight people living in the Azad Jammu and Kashmir (AJK) local community. The issues raised in the complaint refer to alleged unfair hiring practices by KPCL, including lack of transparency in its hiring process, not hiring on the basis of professional skills, and alleged discrimination based on community of origin. One of the Complainants stated that Memoranda of Understanding (MoUs) and project agreements exist that are supposed to guarantee the provision of jobs to local communities based on merit. The complaint alleged that many local, highly qualified, and experienced professional engineers from the AJK area are not being considered for jobs at the Karot Hydro Power Project (KHPP) despite having the required qualifications. The Complainants further claimed that the Company's hiring process violates international laws, and that top management has engaged in incidents of nepotism, promoting their favorites based on ethnicities and communities of origin.

In June 2022, CAO determined that the complaint met its three eligibility criteria.<sup>4</sup> In accordance with the CAO Policy, the complaint was referred to IFC at the Complainants' request. According to IFC, during the referral process, the project team acknowledged the complaint and continuously engaged with the Complainants' representative from June 2022 to March 2023. IFC hired an expert to review the hiring process and the records from its Human Resources department (HR). The expert's report concluded that the process was in line with KPCL's HR policies and procedures and found no evidence of systemic discrimination. While the report identified areas of opportunity for improvement, IFC did not find evidence of irregularities or systemic discrimination in KPCL's hiring procedures or practices and informed the Complainants' representative of these findings on March 9, 2023. On March 22, 2023, IFC informed CAO of its decision to end its engagement with the Complainants, after their representative disagreed with these findings. On March 27, 2023, the Complainants stated their desire for CAO to resume processing the complaint.

### **CAO Assessment**

CAO's assessment process began in March 2023. It aimed to clarify the issues and concerns raised by the Complainants in their complaint and gather information on the views of different stakeholders. The assessment also sought to determine whether the Parties wished to pursue a dispute resolution process or to initiate a compliance appraisal of IFC's environmental and social performance (see Appendix A). During this phase, the CAO assessment team carried out a desk review of project information and held virtual and in-person meetings with the Complainants, KPCL, and IFC project teams. Due to the political and social unrest that occurred in Pakistan

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<sup>3</sup> CAO is currently conducting a compliance investigation for Karot-02 and Karot-03 complaints, a dispute resolution process for the Karot-07 complaint, and an assessment for the Karot-08 complaint. CAO also has recently found two additional complaints related to this project (Karot-05 and Karot-06) to be eligible, and has referred them to IFC, at the Complainants' request. IFC is directly addressing the Karot-05 and Karot-06 cases.

<sup>4</sup> According to CAO policy, a complaint is eligible if: (1) the complaint relates to an Active IFC/MIGA project, (2) the issues raised in the complaint pertain to CAO's mandate to address environmental and social impacts of Projects, (3) the Complainant(s) is or may be affected by the harm raised in the complaint.

following the arrest of the former Prime Minister, Imran Khan, on May 9, 2023, the assessment team was unable to travel to meet with the Parties in person.

During the assessment phase, CAO contacted seven of the eight Complainants, who include both skilled and unskilled workers. Despite several attempts, CAO was unable to communicate with the eighth Complainant. Through discussions with the seven Complainants, CAO gained a thorough understanding of their issues and concerns. During these conversations, the Complainants voiced concerns regarding:

1. Unfair hiring and employment practices, such as hiring based on favoritism and nepotism, and discrimination against AJK local populations;
2. Unfair dismissal; and
3. Forced resignations.

The Complainants indicated that several other AJK residents are also affected by KPCL's unfair labor practices, because KPCL lacked transparency in its hiring and dismissal process and did not provide fair working conditions, such as adequate living wages.

During this phase, KPCL provided CAO with detailed explanations of the Company's hiring policy, internal tools regarding the workers' grievance mechanism and labor-related training, and its engagement with local communities. The Company noted that its management approved a revised standard operating procedure (SOP) for hiring practices, which was a major step in considering the local communities as major stakeholders. The SOP explains the Company's recruitment principles and states how open employment positions are to be advertised, such as through local newspapers, publicized through the Government Assistant Commissioner's officers, disseminated to the local communities in the Community Relations Management Plan (CRMP) meetings, and published on social media.

KPCL emphasized that, for technical positions and skilled workers, candidates are hired strictly based on merit, taking into consideration the required standardized criteria for the job. The Company added that, for unskilled openings, it tries to ensure that all unskilled workers are hired from the local communities.

During the assessment phase, the Parties decided to address the issues raised in the complaint through a dispute resolution process facilitated by CAO. In August 2023, CAO published its Assessment Report, which summarized each Party's perspective and the assessment outcomes.<sup>5</sup>

## **Dispute Resolution Process**

### Preparation for dialogue and capacity building

In August 2023, the CAO team traveled to Pakistan and convened in-person capacity-building sessions with the Parties, aimed at preparing them for the dialogue process. These sessions included training in communication, negotiation, the role of each Party and observers in the dialogue process, and what to expect during the dispute resolution process. The CAO team continued to provide capacity building to the Parties throughout the dispute resolution process.

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<sup>5</sup> CAO [Assessment Report](#), August 2023.



*Capacity-building session with CAO team and Complainants, Islamabad, Pakistan (August 2023)*

### Dialogue process

The CAO team conducted several virtual and in-person bilateral sessions with the Parties in August and September 2023. During these sessions, the Parties worked on drafting the ground rules and mediation framework agreement, which would serve to govern the mediation process. The draft agreement describes the objectives and scope of the mediation process, including the substantive issues to be addressed, the roles of the CAO mediator, the designated representatives of each Party in the process, and the principles of mediation.





*Bilateral session with CAO team and KPCL representatives, AJK/Punjab, Pakistan (August 2023)*

The CAO mediation team traveled to Pakistan in October 2023 to continue to work with the Parties in person on the *ground rules and mediation framework agreement* and to prepare them for the first joint session. The Complainants designated one representative to address the three issues identified during the assessment process: (1) unfair hiring practices, (2) unfair dismissal, and (3) forced resignation.

During the October 2023 mission, the Parties held their first joint session. The session was hybrid, with the seven Complainants who could be reached attending in person and the Company representatives participating in person and online. The session was focused on creating a space where the Complainants could express their grievances to the Company, and the Company could listen to the Complainants' experiences and perspectives. As a result of this session, KPCL agreed to review its internal files on the specific cases of unfair dismissal and forced resignation and revert to the CAO and complainant group during the next joint session.

Between the first and second joint sessions, the CAO mediation team continued to hold bilateral sessions with the Parties to advance the dialogue process. During the second joint session, which took place in November 2023, the Parties discussed all three issues. Regarding the issues of unfair dismissal and forced resignation, the Company indicated that it was not able to find relevant information on the specific grievances the Complainants raised and noted that it was difficult to address these concerns without any concrete evidence. The Company requested that the Complainants provide relevant information or proof to support their claims. The Company also apologized for past incidents, that may have happened which may have negatively affected Complainants and committed to informing them of new job opportunities. KPCL indicated that it did not want to focus on past issues and proposed to look into ways of improving its hiring and employment practices in the future. The Complainants felt that it was unfair to expect them to provide proof of their unfair dismissal or forced resignation because, in these situations, there is typically no proof of such actions. The Parties were not able to move forward on these issues, as they disagreed on who should bear the burden of proof for these allegations.

Following the joint session in November 2023, the CAO mediation team continued to convene bilateral preparatory meetings with the Parties between December 2023 and February 2024. These meetings aimed to follow up on the discussions during the first two joint sessions, help the Parties move away from their positions, and think of potential proposals to move the negotiation process forward.

As requested by the Complainants, the CAO mediation team convened a third joint session in February 2024. During this session, KPCL representatives informed the Complainants of measures it would take to provide a more transparent recruitment process and reiterated the progress made to strengthen the Company's hiring policies. KPCL reminded the Complainants that all new vacancies were being advertised publicly at the local level, on social media, and in government offices, and that priority would be given to local communities while adhering to KPCL's internal policies for selecting the most qualified candidates. The Company also indicated that it had created 21 policies on relevant issues, such as labor standards, employees' grievance redress mechanism, workers' union council and management committee, freedom of association, and non-discrimination.

However, the Complainants expressed disappointment with the Company's position and the perceived lack of concrete proposals from the Company to adequately respond to their specific situations and the issues stated in their complaint. While the Complainants noted that having these labor-related policies in place was important, they indicated that they lacked trust in their implementations, and therefore would not adequately respond to the issues raised in the complaint.

The Complainants further expressed frustration at what they perceived as a lack of effort from the Company to redress their individual past grievances. They further requested compensation for being unfairly dismissed and/or forced to resign, and provision of new jobs for some members of the Complainant group. The Company did not agree to these requests, because according to them, there were no records or evidence to support the Complainants' claims of unfair dismissal or forced resignation.

On the other hand, the Company felt that its vision was very different from that of the Complainants. KPCL stated that its focus was to find long-term sustainable solutions to the concerns raised, as it envisioned a long future between the community and the project. In its view, its focus was on creating a working recruitment system for the future, instead of finding redresses for particular individual concerns.

#### Closure of the dispute resolution process

In March 2024, the Complainants indicated that, in light of the Company's proposals for improving future hiring processes and transparency, they were considering transferring the unfair dismissal and forced resignation issues to CAO's Compliance function. They suggested continuing to discuss the issue of unfair hiring practices in the dispute resolution process. However, the Company was not open to dividing the issues between the Dispute Resolution and Compliance functions.

In May 2024, CAO informed the Complainants of the Company's decision. The Complainants decided to transfer all three issues to CAO's Compliance function.

Given the voluntary nature of the process and the lack of agreement between the Parties on how to resolve the issues raised in the complaint, CAO concluded the dispute resolution process in May 2024.

### **CHALLENGES, REFLECTIONS, AND LESSONS LEARNED**

The case presented several challenges and learning opportunities.

#### **Benefits of capacity-building sessions**

The Parties indicated that capacity-building sessions were important in helping them to prepare for the mediation process. They believed that some of the tools shared during these sessions, such as active listening and communication skills, were valuable in helping them participate constructively during the process. They noted that it helped them to have a solutions-oriented approach, to understand that there was not only one solution to a problem, and to engage with

empathy. The Parties added that these sessions helped them to communicate more effectively and to gain a better understanding of technical issues.

### **Importance of parties' flexibility and creativity while engaging in a dispute resolution process**

Unlocking the potential for new solutions and embracing creativity are critical factors that can determine parties' success in a mediation process. When parties foster creative solutions and seek original and inventive ways to solve issues, they are able to strengthen relationships, which can lead to positive outcomes. However, when parties become entrenched in their positions, the possibility of finding common ground is diminished.

In this case, there were instances where the Parties may have missed opportunities to explore alternative solutions in the mediation process. To address this, the CAO team held brainstorming and problem-solving sessions in an attempt to tap into the Parties' creativity and to help them consider alternative approaches that would be mutually beneficial. Despite these efforts, there was little room to move the mediation forward.

### **Building trust and establishing good faith relations**

One of the main challenges of mediation processes is building trust between the parties. While mediators can help create safe and confidential spaces for the parties to speak openly and honestly, parties are encouraged to act in good faith and perceive that the other party is also acting in good faith in order to build a relationship of trust and collaboration. Parties can demonstrate good faith by being clear, transparent, and honest in their communications, fulfilling their proposals or commitments, and responding to the needs and concerns of the other party.

During this dispute resolution process, the Parties may have overlooked the benefit of building strong relationships of trust with each other. Stronger relationships could have been created and solidified through support and follow-through of actionable initiatives presented during the joint sessions. While the Parties reiterated their commitment to the dispute resolution process, they were still unable to build sufficient trust with each other to continue the dialogue process.

### **Limitations of online and hybrid forms of mediation**

Navigating the complexities of virtual or hybrid negotiations can be challenging, especially when trust between the parties is low. Unlike in-person discussions, virtual environments lack the nonverbal cues that help convey understanding and empathy. This can make resolving disputes even more challenging. In addition, poor connectivity in remote areas makes it difficult for messages to be clear and well-understood.

Given that the Complainants live in different regions in Pakistan, and the country's security situation prevented the Company representatives from moving freely on some occasions, CAO had to organize several hybrid joint sessions. This situation created a setback in generating empathy and trust between the Parties, as fully in-person sessions were not always possible.

## **CONCLUSION AND NEXT STEPS**

Despite their efforts to resolve the issues raised in the complaint through a dispute resolution process, the Parties could not reach an agreement. At the request of the Complainants and in accordance with CAO's Policy, the case will be transferred to CAO's Compliance function. CAO will conduct a compliance appraisal to determine whether an investigation of IFC's environmental and social performance is merited in relation to the issues raised in the complaint or whether to close the case.

All documentation relevant to this case is available on CAO's website at [www.cao-ombudsman.org](http://www.cao-ombudsman.org).

See Appendix A for more information about the CAO process.



## APPENDIX A. CAO COMPLAINT-HANDLING PROCESS

Once CAO declares a complaint eligible, an initial assessment is carried out by CAO dispute resolution specialists. The purpose of a CAO assessment is to (1) clarify the issues and concerns raised by the complainants, (2) gather information on how other stakeholders see the situation, and (3) help stakeholders understand the recourse options available to them and determine whether they would like to pursue a collaborative solution through CAO's Dispute Resolution function or whether the case should be reviewed by CAO's Compliance function.

As per the IFC/MIGA Independent Accountability Mechanism (CAO) Policy,<sup>6</sup> the following steps are typically followed in response to a complaint that is received:

- Step 1:       **Acknowledgment** of receipt of the complaint.
- Step 2:       **Eligibility:** Determination of the complaint's eligibility for assessment under the mandate of CAO (no more than 15 business days).
- Step 3:       **Assessment:** Assessing the issues and providing support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 90 business days, with possibility of extension for a maximum of 30 additional business days if, after the 90-business day period, (1) the Parties confirm that resolution of the complaint is likely or (2) either Party expresses interest in dispute resolution, and there is potential that the other Party will agree.
- Step 4:       **Facilitating settlement:** If the Parties choose to pursue a collaborative process, CAO's Dispute Resolution function is initiated. The dispute resolution process is typically based on or initiated by a Memorandum of Understanding and/or mutually agreed-upon ground rules between the Parties. It may involve facilitation/mediation, joint fact finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goals. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the Parties affected.<sup>7</sup>

OR

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<sup>6</sup> For more details on the role and work of CAO, please refer to the full IFC/MIGA Independent Accountability Mechanism (CAO) Policy: <https://documents1.worldbank.org/curated/en/889191625065397617/pdf/IFC-MIGA-Independent-Accountability-Mechanism-CAO-Policy.pdf>

<sup>7</sup> Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President and Board of the World Bank Group, and the public, that CAO Dispute Resolution has concluded the dispute resolution process and transferred the complaint to CAO Compliance for appraisal.

**Compliance appraisal/investigation:** If the Parties opt for an investigative process, the complaint is transferred to CAO’s Compliance function. The complaint is also transferred to the Compliance function when a dispute resolution process results in partial or no agreement. At least one complainant must provide explicit consent for the transfer unless CAO is aware of Threats and Reprisals concerns. CAO’s Compliance function reviews IFC/MIGA’s compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate following a three-step process. First, a compliance appraisal determines whether further investigation is warranted. The appraisal can take up to 45 business days, with the possibility of extending 20 business days in exceptional circumstances. Second, if an investigation is warranted, the appraisal is followed by an in-depth compliance investigation of IFC/MIGA’s performance. An investigation report will be made public, along with IFC/MIGA’s response and an action plan to remediate findings of non-compliance and related harm. Third, in cases where non-compliance and related harm are found, CAO will monitor the effective implementation of the action plan.

Step 5: **Monitoring and Follow-up**

Step 6: **Conclusion/Case Closure**

CAO Compliance Process

