

DECEMBER 2025

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## Compliance Investigation Report

# CAO Compliance Investigation of IFC Environmental and Social Performance: Karot Hydropower Project, Pakistan

*Complaint Karot Hydro-02, Karot Hydro-03, and Karot Hydro-04/Jhelum River  
IFC Projects # 34062 and # 36008*

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## Executive Summary

*Following its 2014 and 2016 investments supporting the development of the Karot Hydropower Project in Pakistan, the International Finance Corporation (IFC) became the subject of a Compliance Advisor Ombudsman (CAO) investigation prompted by worker and union complaints regarding site conditions. Between 2019 and 2022, three complaints were submitted alleging discrimination, restrictions on freedom of association, occupational health and safety shortcomings, unreasonable terms of employment, including improper dismissal and resignation, and deficiencies in worker grievance mechanisms. CAO's investigation found IFC to be noncompliant in both its pre-investment due diligence and supervision. These shortcomings have resulted in Harm and indications of Harm to the complainants. Section 5 of this report makes a series of project and systemic level recommendations for IFC to consider including in a Management Action Plan.*

### IFC Investment

Karot Power Company Ltd. (KPCL or “the client”) is a special-purpose vehicle incorporated in Pakistan. It is sponsored by majority-owned by China Three Gorges South Asia Investment Limited (CSAIL) – an investment holding company that acquire, develop, build, own and operate renewable power generation projects in Asia and Pacific region, with a focus on Pakistan. KPCL was formed to construct, operate, and maintain the 720-megawatt Karot hydropower plant on a greenfield site by the Jhelum River (“the project”). In May 2014, IFC approved a 15 percent equity investment in CSAIL, amounting to US\$125 million, joining China Three Gorges Investments (CTGI) and the Silk Road Fund as CSAIL investors. In early 2016, during IFC’s environmental and social due diligence (ESDD) for a direct loan to the project, preconstruction works at the site were ongoing. In May 2016, IFC approved a US\$100 million loan to KPCL. In 2023, IFC sold its equity in CSAIL, but the loan to KPCL – the project operator remains active.

IFC financing for the hydropower plant contributed to addressing the Pakistan’s significant power demands, generating renewable energy to reach an estimated 3.8 million residential customers. Further benefits of the project, IFC anticipated, include generation of power at a lower cost compared to thermal alternatives and greenhouse gas reductions of approximately 1.6 million tons of CO<sub>2</sub> annually during operational phase.<sup>1</sup>

The project features a 95.5-meter-high dam, a surface powerhouse, four headrace tunnels, a spillway, and a 5-kilometer 500-kilovolt transmission line to the national grid. Formal construction works at the project site commenced in December 2016 and commercial operations began in June 2022. Generating up to 3,174 gigawatts annually, the plant sells energy to Pakistan’s National Transmission and Dispatch Company Limited under a 30-year power purchase agreement. The engineering, procurement, and construction (EPC) agreement is a joint contract between Three Gorges Technology and Economy Development Company Limited (TGDC), the engineering and construction contractor, and China Machinery Engineering Corporation (CMEC), the procurement contractor.

### The Complaints

This compliance investigation report responds to three complaints: Karot Hydro-02, Karot Hydro-03, and Karot Hydro-04. Karot Hydro-02,03 and 04 were received over the period of August 2019 to May

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<sup>1</sup> See the IFC’s disclosure documents regarding the Karot project. IFC (International Finance Corporation), *Karot Hydro: Environmental and Social Review Summary*, IFC Project Information and Data Portal, 2015, <https://bit.ly/3rkE4Sq>.

2022 and merged in April 2021 and again in December 2024.<sup>2</sup> The Karot Hydro-2 complaint presented allegations against KPCL of unfair dismissal, withheld wages, and discrimination against local Pakistani construction workers, particularly regarding access to drinking water, quality of accommodations, and transportation. After the complainant ceased contact with CAO during the assessment phase, the case was transferred to CAO's compliance function for appraisal in December 2020.

The Karot Hydro-03 complaint was filed in July 2020 by representatives of three unions—the Building and Wood Workers International (BWI), the Pakistan Federation of Building and Wood Workers (PFBWW), and the Awami Labor Union (ALU). It alleged that KPCL and TGDC interfered in union activities, created a client-controlled union, maintained inadequate occupational health and safety (OHS) conditions, had inappropriate terms of employment, engaged in improper dismissal and forced resignation practices, and had an inadequate workers' grievance mechanism. The case was transferred to CAO compliance appraisal in April 2021.

Karot Hydro-04, received by CAO in May 2022, was filed by the president of the Karot Dam Action Committee on behalf of eight local community members. The complaint claims unfair hiring practices, including favoritism, unjust dismissals, discrimination against locally qualified engineers, and forced resignations in response to the workers raising concerns about inequities. Following a failed attempt at CAO-led mediation, the case was transferred to CAO's compliance function for appraisal in September 2024. As a result of its Appraisal, in December 2024, CAO decided to close the issue of unfair hiring practices but continue to assess the allegations of unfair dismissal and forced resignation by merging the case with the Karot Hydro-02 and Karot Hydro-03 compliance investigation.

## **Client Response**

In response to the concerns raised in the first two complaints, KPCL stated that the hydropower project complied with applicable national labor laws and IFC's Performance Standards (PS) on Environmental and Social Sustainability. It emphasized its ongoing efforts to improve working conditions and highlighted IFC's support throughout the project's development, construction, and operation.<sup>3</sup> Regarding the allegation of discrimination, KPCL noted that the differences in the provision and condition of accommodations were the result of different seniority levels and cultural preferences among non-Pakistani and Pakistani workers and that the workers had given their consent. KPCL reiterated that any project site shortcomings had been identified, remedied, and improved. Regarding the Karot Hydro-04 allegations of unfair dismissal and forced resignation, KPCL noted that the complainants were employed by TGDC, the construction contractor, but asserted that there was no evidence to support the allegations.<sup>4</sup> In 2024, KPCL reported to CAO that all past grievances reported to TGDC had been addressed or resulted in compensation, with no recorded cases of workers being illegally terminated or forced to resign. KPCL added that TGDC, its main contractor, had developed IFC-approved human resources (HR) and labor policies to ensure transparency and accountability and that it provided related training to workers.

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<sup>2</sup> CAO may merge a complaint with an earlier compliance process, if still open, and the complaint is substantially related to the same issues as the earlier compliance process. The Karot Hydro -02 and -03 cases were merged during the compliance appraisal stage (April 2021), and Karot Hydro-04 was merged with the other two cases during compliance investigation (December 2024).

<sup>3</sup> For KPCL's perspective, see CAO, Compliance Assessment Report Regarding the Second Complaint in Relation to IFC's Investment in Karot Hydro (#36008) in Pakistan (CAO, 2020), <https://officecao.org/43ygBlm>.

<sup>4</sup> For KPCL's response to the Karot Hydro-04 complaint, CAO, Compliance Appraisal Report: CAO Compliance Appraisal of Complaint Regarding IFC's Investment in Karot Power Company Ltd. (KPCL), Pakistan, (CAO, 2024), appendix 3: <https://officecao.org/4dm26V9>.

## **IFC Response**

The Karot Hydro-02 and Karot Hydro-03 compliance appraisals did not require a Management Response from IFC under CAO's 2013 Operational Guidelines, which were in effect when the complaints were filed. IFC's October 2024 Management Response to the Karot Hydro-04 complaint stated that KPCL's hiring process was independently reviewed and found to comply with KPCL's HR policies and IFC's PS2 (Labor and Working Conditions). IFC added that the client implemented HR policies that included commitments to equal opportunity and nondiscrimination, monitored employee diversity and local hiring indicators, regularly updated community representatives, and hired a significant number of local workers during peak employment. IFC stated that the complaints of unfair dismissal and forced resignation lacked sufficient information for PS2 compliance assessment but verified that Karot's termination procedures and grievance mechanisms (GMs) aligned with national laws and PS2.

## **CAO Investigation and Findings**

CAO's investigation examined five key issues raised by the complainants:

- Discrimination. Complainants allege that local Pakistani construction workers are being discriminated against, particularly in terms of access to transportation, drinking water, and food services; accommodation, and terms of employment (payments and benefits).
- Freedom of association. There are claims of interference in the ALU's activities and of security practices hindering the trade union's operations.
- Occupational health and safety. Complainants say the supply of personal protective equipment (PPE) has been inadequate during project construction and implementation of appropriate COVID-19 procedures.
- Terms of employment. Allegations include unreasonable terms of employment regarding wages and benefits, improper dismissals and forced resignation practices.
- Workers' grievance mechanism. Complainants claim that the project site lacks an operational workers' grievance mechanism (WGM).

## ***IFC's Pre-Investment Due Diligence***

IFC's pre-investment ESDD for the equity and loan investments did not include an adequate review of Pakistan's labor context—which was challenging.<sup>5</sup> IFC did not identify key aspects as significant contextual risks, such as terms of employment and freedom of association, despite well-documented challenges in the country. The absence of a thorough contextual risk analysis meant IFC was not in a position to fully identify or address gaps in CSAIL's approach to assessing and managing environmental and social (E&S) risks related to labor issues per PS2 requirements. This was a significant omission given the availability of authoritative, country-specific information on labor risks, which should have informed the identification of potential risks under PS2 and the development of appropriate mitigation measures.

CAO found no evidence that IFC conducted a detailed assessment of CSAIL's parent company,

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<sup>5</sup> Notably, ILO's 2014 Decent Work Country Profile for Pakistan and the ITUC's 2013 and 2014 Global Rights Index highlighted significant labor challenges in the country. The 2016 Decent Work Country Program later reported these challenges as ongoing. ILO, *Decent Work Country Profile: Pakistan 2014* (ILO, 2014), <https://officecao.org/469V1Ft>; ITUC (International Trade Union Confederation), *Countries at Risk: Violations of Trade Union Rights* (ITUC, 2013), <https://officecao.org/4nt4D40>; ITUC (International Trade Union Confederation), *ITUC Global Rights Index: The World's Worst Countries for Workers* (ITUC, 2014), <https://officecao.org/4pCNJSa>; ILO, *The Islamic Republic of Pakistan Decent Work Country Program (2016–2020)* (ILO, 2016), <https://officecao.org/4aaPsJe>

CTGI's,<sup>6</sup> labor-related policies and procedures, or their implementation to identify potential gaps related to PS2, as required by the IFC Policy on Environmental and Social Sustainability (Sustainability Policy, para. 28).<sup>7</sup> This omission is significant because IFC's ESDD documentation noted that KPCL would rely on the labor-policies and procedures of the CSAIL's parent company to manage labor related issues during the construction of the project. CTGI is the majority shareholder in CSAIL, which in turn is the majority shareholder in KPCL.

IFC's Environmental and Social Review Summary (ESRS) for the Karot project addressed several PS2 risks but did not adequately evaluate specific risks and actions on employment terms and freedom of association in the context of Pakistan, as required by PS2. This omission hindered IFC's ability to provide the client with appropriate guidance on adequately considering PS2 risks in the project's Environmental and Social Impact Assessment (ESIA) and Environmental and Social Management Plan (ESMP) and developing an Environmental and Social Action Plan (ESAP) for its loan investment that adequately addressed these issues, consistent with PS2. As a result, the ESAP did not fully address these issues, leaving IFC unable to assure compliance with the Performance Standards within a reasonable period of time, as required by the Sustainability Policy (para. 22).

### ***IFC's Supervision***

Shortcomings in IFC's pre-investment due diligence had implications for supervision. Specifically, the absence of a comprehensive labor risk assessment during pre-investment meant the project's E&S framework was insufficient for IFC to supervise the client's adherence to PS2 requirements. While IFC strengthened its supervision of labor issues throughout construction by issuing corrective action plans to KPCL on OHS- and GM- related issues, IFC did not fully address the adverse labor conditions it had identified during the construction period as required by the Sustainability Policy (para. 24 and 45).

With respect to each of the five issues raised by the complaints, CAO reviewed IFC's supervision and identified instances of noncompliance with IFC's Sustainability Policy, noting several deficiencies in IFC's performance in three of the five issues.

**Discrimination:** Between 2017 to 2020, IFC monitored on-site services and accommodation provisions through site visits, reviews of consultant reports, and assessment of third-party evaluations. These activities were consistent with IFC's general supervision commitments.

In 2017, IFC first identified gaps in the application of PS2 requirements. Early IFC supervision documentation recorded disparities between Pakistani and non-Pakistani workers, noting that non-Pakistani workers paid reduced rates for food and received superior quality accommodation, whereas Pakistani workers paid a fixed monthly amount for food and received inferior accommodation, including inferior clothes washing facilities, recreational facilities, and bedroom cooling facilities. These documented disparities indicated a potential inconsistency with PS2 requirements, which stipulate that working conditions, including accommodation services, be

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<sup>6</sup> At the time of IFC's pre-investment review, CTGI was known as CWE Investment Corporation (CWEI)

<sup>7</sup> According to the Sustainability Policy, para. 28: "Environmental and social due diligence typically includes the following key components: (i) reviewing all available information, records, and documentation related to the environmental and social risks and impacts of the business activity; (ii) conducting site inspections and interviews of client personnel and relevant stakeholders, where appropriate; (iii) analyzing the business activity's environmental and social performance in relation to the requirements of the Performance Standards and provisions of the World Bank Group Environmental, Health and Safety Guidelines or other internationally recognized sources, as appropriate; and (iv) 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 (Environmental and Social Action Plan) necessary conditions of IFC's investment." IFC (International Finance Corporation), *IFC Policy on Environmental and Social Sustainability* (IFC, 2012), para. 28, <https://officecao.org/3MUqjPV>.

provided in a manner consistent with the principles of non-discrimination and equal opportunity.

However, corrective measures were not enforced until 2020 when IFC sought to tie one of its disbursements to Karot (disbursement no. 10)<sup>8</sup> to an agreement on labor-related corrective actions included in a Supplementary Corrective Action Plan (SCAP). In the context of Covid-19 pandemic, IFC decided to proceed with the 10<sup>th</sup> disbursement and waive client E&S performance gaps because the client agreed to the SCAP with implementation date post IFC's disbursement.<sup>9</sup> At that time, IFC required the client to prepare a discrimination assessment report. The client concluded that differences in accommodation and site facilities stemmed from the cultural, contractual, and climatic needs of non-Pakistani expatriates, while Pakistani workers followed local laws and practices. IFC overlooked the lack of alignment of this conclusion with PS2.<sup>10</sup> These issues amongst other disparities in accommodation between Pakistani and non-Pakistani workers persisted to be reported.

Later, IFC's supervision documentation focused primarily on the general quality and management of accommodation and related services, without evaluating whether differences in accommodation standards existed between workers of different nationalities or considering the potential risk of unequal treatment or discrimination arising from such disparities. Accordingly, CAO finds that IFC did not adequately assess whether non-discrimination and equal opportunity PS2 requirements, (paras. 12 and 15) were being applied in practice to workers' food provision, transportation services, and accommodation.<sup>11</sup>

**Freedom of Association:** As documented by the International Labour Organization (ILO) and International Trade Union Confederation (ITUC),<sup>12</sup> freedom of association in Pakistan is often restricted by employers and governments through undue pressure, prejudicial acts, and interference in trade union activities. However, despite this challenging context, IFC, during its supervision between 2016 and 2019, did not collect timely information on freedom of association among project workers. As a result, IFC only learned about the delays in registering the ALU as a trade union in February 2019 - approximately 21 months after the ALU initially sought recognition at the project site.

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<sup>8</sup> In August 2019, CAO received the Karot Hydro-02 complaint with allegations of labor discrimination at the project site.

<sup>9</sup> This was IFC's last disbursement. Due to ongoing labor concerns, no further disbursements were made by IFC.

<sup>10</sup> IFC Performance Standard 2 requires that clients "promote fair treatment, non-discrimination, and equal opportunity for workers" (Objective) and "will not make decisions relating to the employment or treatment of workers on the basis of personal characteristics unrelated to inherent job requirements" (para. 7). Where accommodation is provided, it must be "maintained in a manner consistent with the principles of non-discrimination and equal opportunity" (para. 17). IFC Guidance Note 2 (GN20) clarifies that equal opportunity applies to housing and related services "regardless of nationality or any other personal characteristic" and that any differences must have a legitimate, objective justification which does not result in inferior conditions for any group of workers. These provisions align with international good practice, as reflected in ILO Convention No. 111—Discrimination (Employment and Occupation), which prohibits distinctions based on "national extraction or social origin" that impair equality of opportunity or treatment, and ILO Recommendation No. 115—Workers' Housing, which states that workers housed by an employer should enjoy equivalent accommodation standards without distinction based on nationality, except for variations objectively required to meet specific needs, provided these do not disadvantage any group.

<sup>11</sup> Performance Standard 2 asserts, "Where accommodation services are provided to workers covered by the scope of this Performance Standard, the client will put in place and implement policies on the quality and management of the accommodation and provision of basic services. The accommodation services will be provided in a manner consistent with the principles of non-discrimination and equal opportunity. Workers' accommodation arrangements should not restrict workers' freedom of movement or of association" and para. 15 "The client will not make employment decisions on the basis of personal characteristics unrelated to inherent job requirements. The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, such as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement, and disciplinary practices." IFC (International Finance Corporation), *IFC Performance Standards on Environmental and Social Sustainability* (IFC, 2012), para. 12, <https://bit.ly/3Rqk6n3>.

<sup>12</sup> ILO, Decent Work Country Profile: Pakistan 2014; ITUC, Global Rights Index 2014.

In 2019 and 2020, IFC and the other lenders commissioned two labor assessments that examined freedom of association issues and proposed a series of actions to address identified gaps. However, these labor assessments did not adequately consider whether the project's security measures may have deterred union activity or contributed to differential treatment between unionized versus non-unionized workers.

CAO finds that IFC fell short of its obligations under the Sustainability Policy (paras. 7 and 45) to retain sufficient evidence of client implementation of FOA requirements and to supervise the client to ensure it did not dissuade, discourage, discriminate, or retaliate against workers for union activities, as required by PS2 (paras. 13–14).

With regard to allegations of a client-controlled union, CAO's investigation finds that IFC complied with its obligations under the Sustainability Policy. Specifically, CAO's investigation did not find sufficient evidence of client interference in the Social Hydro Labor Union (SHU).

**Occupational Health and Safety:** CAO finds that IFC has demonstrated a robust and comprehensive approach to supervising PPE provision at the Karot project. IFC monitored compliance with health and safety standards through site visits, documentation reviews, third-party labor consultants, inspections, audits, and corrective action plans to address PPE deficiencies and improve practices. From 2017 onward, IFC consistently identified PPE risks and proposed corrective actions, such as developing procedures, training workers and supervisors, and ensuring free access to quality PPE. During the COVID-19 pandemic, a local labor consultant was engaged through the Lenders' independent E&S consultant (IESC), at IFC's request, for on-site monitoring. The client's response to COVID-19 was considered rapid and aligned with Good International Industry Practice (GIIP).

**Terms of Employment:** Beginning in early 2016, during project preconstruction activities, when there were approximately 800 on-site workers, IFC monitored terms of employment.<sup>13</sup> A review of IFC's supervision documentation indicates that gaps persisted in the project's implementation of terms-of-employment requirements under PS2 during the construction period (2016–22). In particular, IFC's records document challenges in relation to on-time salary payments, overtime payments, leave entitlements, wage deductions, reasonable working hours, issuance of formal contracts, and terminations without notice.

IFC's supervision documentation shows mixed success in addressing these issues, with several problems recurring multiple times during construction. It was not until mid-2020 that IFC sought to link its tenth financial disbursement to the resolution of these labor-related concerns. In proceeding with the 10<sup>th</sup> disbursement, IFC decided to waive client E&S performance gaps as the client agreed with a Supplementary Corrective Action Plan (SCAP) with post disbursement implementation dates. Due to ongoing labor concerns, no further (eleventh) disbursement was made by IFC.

CAO therefore finds that IFC supervision did not achieve timely resolution of persistent and well-documented allegations of PS2 performance gaps, in relation to the adoption and implementation of human resources policies and procedures, and retrenchment, and that IFC did not comply with its obligations under the Sustainability Policy (paras. 24 and 45) to ensure effective supervision, address identified gaps and retain sufficient evidence demonstrating client implementation of applicable PS2 requirements.

**Workers' Grievance Mechanism:** CAO finds that IFC adequately supervised its client in its effective implementation of PS2 requirements for a WGM during the project's construction (2017–22). IFC's

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<sup>13</sup> According to PS2, working conditions and terms of employment include wages and benefits, wage deductions, working hours, overtime arrangements and compensation, breaks, rest days, sick leave for illness, maternity leave, and vacation or holiday time. IFC, *IFC Performance Standards*, PS2.

supervision, supported by the Lenders' IESC, consistently reviewed and improved the WGM, enhancing workers' access to grievance boxes, centralizing grievance logs, and recommending better procedures and staff training. For each monitoring report, the Lenders' IESC examined the WGM procedures and implementation. When gaps were identified in 2019, the Lenders' IESC responded proactively by hiring a labor consultant, at IFC's request to conduct additional reviews, including corrective actions in 2021. These efforts led to significant improvements in the client's WGM implementation, resources, and resolution of worker grievances.

### ***Related Harm to the Complainants***

CAO concludes that the complainants experienced Harm in relation to discrimination, freedom of association, and terms of employment. These Harms are related to IFC noncompliance during ESDD and supervision with respect to discrimination, freedom of association, and terms of employment with respect to its obligations under the Sustainability Policy regarding the project's compliance with applicable PS2 requirements.

- **Discrimination:** Reviewed evidence indicates that Pakistani workers were treated less favorably than non-Pakistani workers in the provision of worker services and accommodation. This harm is related to IFC noncompliance with ESDD and supervision requirements under the Sustainability Policy to ensure the client meets the requirements of nondiscrimination and equal opportunity under PS2.
- **Freedom of Association:** Taken together, the delays in union registration and reports of challenges to conducting union activities including forced resignations and an on-site military presence heightened fears of intimidation, are indications of a Harm to complainants.
- **Terms of Employment:** Complainants reported delayed wages, wage deductions, incorrect or no overtime payments, excessive overtime, lack of leave payment, instances of unfair dismissal, forced resignation, and lack of benefits. These incidents are linked to IFC noncompliance with its obligations under the Sustainability Policy regarding the project meets requirements related to terms of employment under PS2.

With respect to the issues related to OHS and the WGM, CAO finds no Harm related to IFC compliance.

## Underlying Causes

CAO's analysis identified two key factors contributing to IFC's non-compliance with its Sustainability Policy in this case.

First, IFC's environmental and social due diligence did not adequately recognize or assess contextual labor risks specific to Pakistan, despite well-documented national issues such as wage payment irregularities, retrenchment practices, and restrictions on freedom of association. The project's Environmental and Social Impact Assessment (ESIA) and associated Environmental and Social Management Plans (ESMPs) did not sufficiently address labor and working conditions, focusing predominantly on occupational health and safety (OHS), while omitting adequate considerations of other aspects to address systemic labor risks. This gap meant IFC lacked a robust basis for assessing client capacity to meet PS2 requirements before large-scale workforce mobilization, particularly given the client's lack of established E&S systems. Capacity-building efforts for labor and working conditions were reactive, introduced after significant gaps emerged, and therefore less effective—in stark contrast to more proactive and successful interventions in OHS, where the ESIA and management plans had provided a clearer framework.

Second, IFC did not consistently link disbursement decisions to the closure of identified PS2 compliance gaps. While supervision processes, including lender monitoring reports, labor consultant assessments, and IFC site visits, repeatedly documented persistent and emerging labor-related risks from 2017 onward, disbursement timelines and conditions did not consider or systematically reflect the status of corrective actions. It wasn't until the 10<sup>th</sup> disbursement, in 2020, that IFC sought to condition the disbursement on measures to address PS2 requirements. However, as implementation of these measures were post-disbursement, IFC's leverage reduced to secure timely corrective action.

This disconnect between documented E&S risks and financing decisions reflects a broader pattern identified by CAO in other recent compliance investigations, where the absence of a strong and consistent link between supervision-identified PS performance gaps and disbursement conditions weakened IFC's capacity to ensure corrective measures were implemented to address actual and potential harm. This case, adds to the body of CAO findings where deficiencies in integrating E&S requirements into disbursement decisions have led to adverse outcomes.<sup>14</sup>

## Recommendations for IFC Management Action Plan

Under CAO Policy, where noncompliance and related Harm are found, CAO makes recommendations for IFC to consider when developing a Management Action Plan (MAP). Recommendations may relate to the remediation of project-level or sub-project noncompliance and related Harm, and/or steps needed to prevent future noncompliance, as relevant in the circumstances.

Following this provision, CAO's recommendations to IFC include:

### **Project-Level Recommendations:**

**Workers' Services and Non-Discrimination:** IFC should work with the client to ensure that:

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<sup>14</sup> Several other CAO compliance investigations have identified a sub-optimal relationship between the timing and conditions of IFC financial disbursements (or additional investments) and the fulfilment of E&S requirements consistent with the Performance Standards. In those cases, this misalignment contributed to IFC noncompliance and resultant harm to project-affected people. See, for example: CAO Compliance Investigation of IFC's investment in [Salala Rubber Corporation](#), [Abwa Bio-Chem Industrial Park](#), [RCBC-01](#), [Masdar Baynouna-01](#).

- All project workers, irrespective of their nationality, have equitable access to essential services such as accommodation, food, clean drinking water, and safe transportation, in line with the IFC–EBRD *Workers’ Accommodation: Processes and Standards*).
- The project has procedures to investigate and address claims of discrimination promptly and effectively, including clear reporting mechanisms and ensuring that workers feel safe to report any incidents of discrimination without fear of retaliation. This should be supported by a robust monitoring system that includes regular audits and inspections to verify compliance with non-discrimination and equal opportunity policies consistent with PS2 and the IFC-EBRD *Workers’ Accommodation: Processes and Standards* for all workers in an equitable manner. The auditor should refer in particular to Annex I: Checklist on Worker’s Accommodation

**Freedom of Association:** IFC should support the development of an enabling environment that provides for collective bargaining and voluntary negotiations, as appropriate, between the IFC client, its contractors, and workers' organizations, ensuring that all negotiation processes are free from undue influence and that negotiated collective agreements are effectively implemented, in line with PS2 Guidance Note 34-39. IFC should work with the client to ensure its practices are aligned with PS2 by:

- Providing capacity-building and awareness-raising programs for workers, employers, security personnel, and relevant authorities on their rights and responsibilities, ensuring workers are aware of their rights to form and join unions, and are adequately protected against acts of anti-union discrimination, retaliation, and acts of interference.
- Ensuring union representatives have reasonable, non-discriminatory access to workers on site for the proper exercise of their functions without undue barriers, with proper consideration of the security needs and effective functioning of the project, and based on agreements between the client and workers’ organizations, if feasible. Necessary arrangements (e.g. specified locations to ensure safety and privacy) should be provided to enable union representatives to communicate freely with workers without interference from the project or the presence of security guards

**Terms of Employment:** IFC should work with the client to establish and support implementation of policies and procedures to ensure that:

- Termination of employment is carried out in accordance with all applicable agreements and law, including the provision of prior notice and written justification of dismissal, entitlement of representative assistance to a worker regarding termination, and provision of severance payments as may be required; and that outstanding wages, benefits and back pay are settled before termination.
- There are clear communication channels with workers to address concerns related to terms of employment. This should include regular meetings with worker representatives and timely updates on any changes affecting workers, as well as effective monitoring of the project grievance mechanism.

**Enhancing Grievance Mechanism for Former Workers:** IFC should work with the client and other responsible parties (e.g., sub-contractors) to expand the existing project grievance mechanism to enable former Karot construction and operations workers to raise material concerns about their period of employment.

- The mechanism should ensure prompt handling of grievances received, in particular severance, overtime, and benefits pay, and the provision of remedy as appropriate.

- IFC should closely monitor the disclosure and implementation of the mechanism, in consultation with the complainants, to verify the effectiveness of the mechanism in addressing grievances.
- Where IFC finds limitations to achieving remedial action through the client or other responsible parties, IFC should support remedial action through the enabling activities articulated in IFC's RAF.

In order to evidence implementation of these project level recommendations, IFC should commission a third-party labor consultant after 18 months to assess PS2 compliance.

### **Systemic Recommendations:**

**Strengthen Internal Guidance to strengthen labor lens of contextual risk analysis and capacity building:** IFC should build on recent updates to its Environmental and Social Review Procedures (ESRP), which recognize the importance of assessing contextual risks, by further strengthening internal guidance on the integration of national labor context into project risk assessments. This should include:

- Developing detailed internal guidelines for E&S staff on how to systematically identify and analyze country-specific labor risks, drawing on authoritative sources such as ILO country profiles, ITUC Global Rights Index, and national labor law enforcement data.
- Enhancing the scope/focus of labor risk analysis of discrimination, freedom of association, and terms of employment during IFC due diligence.
- Designing and delivering targeted internal training for IFC investment and E&S staff to operationalize this expanded focus, equipping them with the tools and methodologies needed to assess both OHS and broader labor-related risks in diverse country contexts.
- Using the results of this enhanced contextual and labor risk analysis to inform early capacity assessments of clients and key contractors, and to design proactive capacity-building programs before large-scale workforce mobilization. By embedding this expanded labor risk focus into IFC's internal procedures and staff training, IFC will be better positioned to anticipate and mitigate systemic labor-related risks, ensure comprehensive PS2 compliance planning from the outset, and reduce the likelihood of persistent gaps during supervision.

**Strengthen Linkages Between Supervision Findings, Disbursement Conditions, and Internal Accountability:** IFC should build on recent updates to its Environmental and Social Review Procedures (ESRP) by strengthening its coordination between supervision findings and disbursement decisions for timely resolutions of documented noncompliances with the PS, consistent with the Remedial Action Framework (RAF) objective of effective application of leverage. Key measures should include:

#### Timely Linkage

- Require use of financial leverage from first identification of persistent or emerging PS performance gaps, to avoid long periods of repeated findings.

#### Waivers and Extensions

- Make waivers or extensions for unresolved high-risk issues exceptional and justified only under defined circumstances.

Require each waiver/extension to document its rationale, supporting evidence, a formal risk assessment and measures to mitigate the risk of any loss of leverage through the disbursement and

ensure implementation of corrective actions. By embedding these measures into IFC's internal systems, IFC can ensure that disbursement decisions are consistent with RAF commitments for enhanced IFC leverage to ensure successful implementation of PS in IFC operations and achieve timely resolution of high-risk issues and enhance the effectiveness of its supervision

**Build Client Capacity on PS2 compliance:** IFC should develop a capacity building program for clients in Pakistan specifically on freedom of association and collective bargaining focused on national laws, labor and working conditions, and OSH requirements, as well as Project Grievance Redress Mechanisms for E&S staff and relevant stakeholders in order to ensure compliance with PS2. This should be developed in consultation with competent labor organizations and trade unions.

### **CAO Case Status**

In accordance with the CAO Policy, IFC prepares a Management Report, which may include a Management Action Plan (MAP) for the purposes of addressing CAO's findings. Once the IFC Board of Executive Directors approves the MAP, CAO publishes this investigation report and IFC's Management Report. CAO's role thereafter is to verify effective implementation of the actions set out in the MAP.

## About CAO

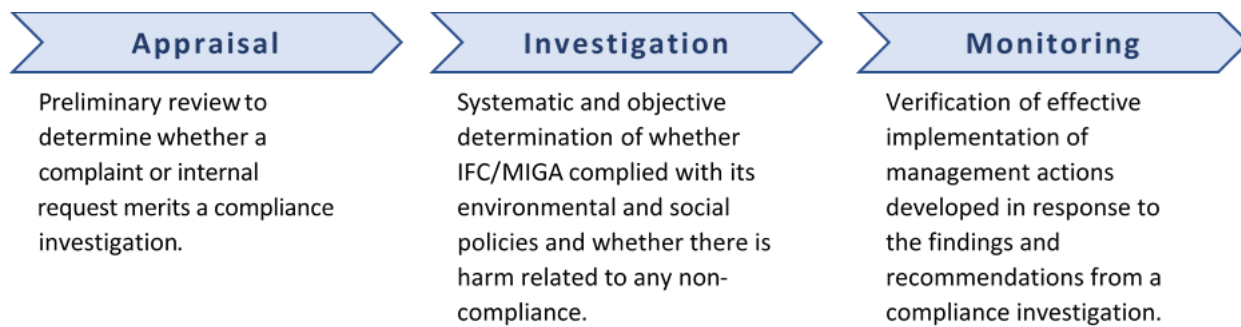
The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), members of the World Bank Group. We work to facilitate the resolution of complaints from people affected by IFC and MIGA projects in a fair, objective, and constructive manner; enhance the outcomes of environmental and social projects; and foster public accountability and learning at IFC and MIGA.

CAO is an independent office that reports directly to the IFC and MIGA Boards of Executive Directors. For more information, see [www.cao-ombudsman.org](http://www.cao-ombudsman.org).

### About the Compliance Function

CAO's compliance function reviews IFC and MIGA compliance with environmental and social policies, assesses related Harm, and recommends remedial actions as appropriate.

CAO's compliance function follows a three-step approach:



### CAO's Compliance Investigation Process

CAO carries out its work in accordance with the IFC and MIGA Independent Accountability Mechanism Policy (CAO Policy).<sup>15</sup> In carrying out its mandate, CAO facilitates access to remedy for project-affected people in a manner consistent with international principles regarding business and human rights included in the IFC and MIGA's Sustainability Framework.

A compliance investigation of a complaint determines whether IFC and/or MIGA has complied with environmental and social policies and whether there is Harm related to any noncompliance on the part of IFC and/or MIGA. The systematic and objective process involves obtaining and evaluating evidence. In cases where CAO finds noncompliance and related Harm, it makes recommendations for IFC and/or MIGA to consider when developing a remedial Management Action Plan (MAP) for Board approval.

CAO subsequently conducts a compliance monitoring process of the Board-approved MAP and reports on the effective implementation of any corrective actions it contains.

For more information about CAO, please visit: [www.cao-ombudsman.org](http://www.cao-ombudsman.org).

<sup>15</sup> The CAO Policy, which supersedes and replaces in its entirety the CAO Operational Guidelines and CAO Terms of Reference, became effective on July 1, 2021. Although the case commenced under the Operational Guidelines, this CAO compliance investigation was completed under the CAO Policy. CAO, IFC and MIGA Independent Accountability Mechanism (CAO) Policy (CAO, 2021), <https://bit.ly/CAO-Policy>.

## Acronyms

ALU	Awami Labor Union
BWI	Building and Wood Workers International
CAO	Office of the Compliance Advisor Ombudsman
CBA	Collective Bargaining Agreement
CEACR	Committee of Experts on the Application of Conventions and Recommendations
CMEC	China Machinery Engineering Corporation
CSAIL	China South Asia Investment Limited
CTGC	China Three Gorges Corporation
CTGI	China Three Gorges International
CWEI	CWE Investment Corporation
EPC	Engineering, procurement, and construction
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
FOA	Freedom of Association
GIIP	Good International Industry Practice
GN	Guidance Notes (which correspond to the Performance Standards)
GM	Grievance Mechanism
HPP	Hydropower plant
HR	Human Resources
IAM	Independent Accountability Mechanism
IESC	Independent Environmental and Social Consultant
IFC	International Finance Corporation
ILO	International Labour Organization
ITUC	International Trade Union Confederation
KPCL	Karot Power Company Ltd
MAP	Management Action Plan
OHS	Occupational Health and Safety
PFBWW	Pakistan Federation of Building and Wood Workers
PPE	Personal Protective Equipment

PS	Performance Standard
SCAP	Supplemental Corrective Action Plan
TGDC	Three Gorges Technology and Economy Development Company Limited
WCMC	Workers' Council and Management Committee
WGM	Workers Grievance Mechanism

# 1. Background

## 1.1 International Finance Corporation Investment

- 1 Karot Power Company Ltd. (KPCL or “the client”), is a special-purpose vehicle established to construct, operate, and maintain the Karot hydropower plant (the project).<sup>16</sup> It is majority-owned (93 percent) by China Three Gorges South Asia Investment Limited (CSAIL). CSAIL was jointly founded in 2011 by China Three Gorges Investments (CTGI),<sup>17</sup> International Finance Corporation (IFC), and Silk Road Fund.<sup>18</sup> CSAIL is the Karot project sponsor, and an investment holding company that focuses on clean energy investments, development, and operations in Asia and the Pacific. It is the largest independent power producer in Pakistan’s clean energy sector.
- 2 IFC financing for the Karot hydropower complex contributed to addressing Pakistan’s significant power demands, generating renewable energy to reach an estimated 3.8 million residential customers.<sup>19</sup> The project is a 720-megawatt, run-of-the-river hydropower plant located on Pakistan’s Jhelum River 55 kilometers from the capital Islamabad in the eastern province of Punjab.<sup>20</sup> The complex includes a 95.5-meter-high dam, a surface powerhouse, four headrace tunnels, a spillway, and an approximately 5-kilometer-long, 500 kilovolt transmission line to the national grid. It is expected to generate 3,174 gigawatt-hours (net) annually, to be sold to the government-owned National Transmission and Dispatch Company Limited under a 30-year power purchase agreement.
- 3 In November 2014, IFC committed up to US\$125 million in an equity investment in CSAIL (project #34062).<sup>21</sup> In May 2016, while the Karot project was in preconstruction phase (land clearing, drilling and blasting, and quarry development), IFC approved a US\$100 million loan to KPCL to help finance project construction, operation, and maintenance (project #36008).<sup>22</sup>
4. Preconstruction started in early 2016, and project construction commenced formally in December 2016. KPCL appointed two other companies to act as the EPC contractor—Yangtze Three Gorges Technology and Economy Development Company Limited (TGDC), responsible for engineering and construction, and China Machinery Engineering Corporation (CMEC) responsible for procurement.<sup>23</sup> The scope of work for the EPC contractor was divided into four sections, with the management of environmental, health and safety, and social aspects

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<sup>16</sup> KPCL is sponsored 93% by CSAIL and 7% by its local partner Associated Technologies (Pvt) Limited (Pakistan). IFC (International Finance Corporation), *China Three Gorges South Asia Investment Limited: Environmental and Social Review Summary*, IFC Project Information and Data Portal, 2014, <https://officecao.org/4o6VttY>.

<sup>17</sup> CTGI, previously known as CWE Investment Corporation (CWEI), is the wholly owned overseas intermediary of the China Three Gorges Corporation (CTGC). CTGC was founded in 1993 to build the 22,500-megawatt Three Gorges Project (the largest hydropower project in the world) on the Yangtze River in China. CSAIL serves as the dedicated platform company for CTGC’s renewable energy investments in Pakistan. IFC (International Finance Corporation), *Karot Hydro: Summary of Investment Information*, IFC Project Information and Data Portal, 2015, <https://officecao.org/449Lqxd>.

<sup>18</sup> More on the Silk Road Fund can be found at <https://officecao.org/43KD267> and more on CTGI can be found at <https://officecao.org/4mCpJgC>.

<sup>19</sup> IFC International Finance Corporation), Loan Summary of Investment Information (SII, 36008), available here: <https://officecao.org/449Lqxd>.

<sup>20</sup> Jhelum River crosses the Pakistan province of Punjab and Azad Jammu and Kashmir. See Britannica, Azad Kashmir, <https://officecao.org/46lruc8>

<sup>21</sup> IFC, CSAIL Environmental and Social Review Summary (ESRS, 34062). Available at: <https://officecao.org/4o6VttY>. CSAIL serves as the dedicated platform for renewable energy investments in Pakistan, through China Three Gorges Investments (CTGI).

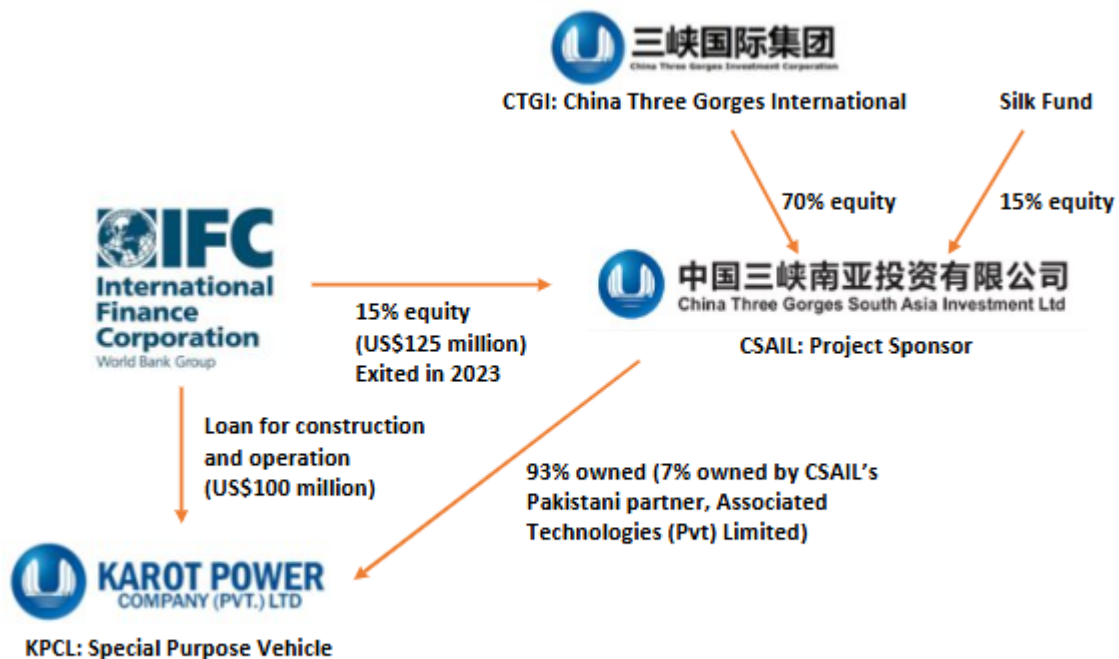
<sup>22</sup> IFC, Karot Hydro: Summary of Investment Information (SII, 36008). Available at: <https://bit.ly/2V0OcDH>.

<sup>23</sup> TGDC and CMEC are subsidiaries of China Three Gorges Corporation (CTGC).

conducted independently for each section with oversight from TGDC/CMEC's combined team.

5. KPCL and the project Lenders - IFC, Export-Import Bank of China (China EXIM), China Development Bank, and Silk Road Fund, appointed an independent environmental and social consultant (IESC) to perform environmental and social (E&S) construction monitoring services for the Karot Hydro Project. The lenders required E&S construction monitoring reports on a quarterly basis for the first year, followed by three times a year for the remainder of building works. The Lenders' IESC prepared a total of 18 such reports from 2017 to 2024. Since commercial operations began in June 2022, monitoring visits by the Lenders' IESC have been less frequent, as agreed with the lenders and KPCL, partly because of security and access constraints.<sup>24</sup>
6. In 2022, China Three Gorges Power Operations International took over as the operation and maintenance contractor for the Karot project and supervised the remaining construction activities which were completed for the most part by the end of 2023. In the same year, IFC sold its equity in CSAIL. The loan to KPCL remains active although IFC's disbursement period has been completed.

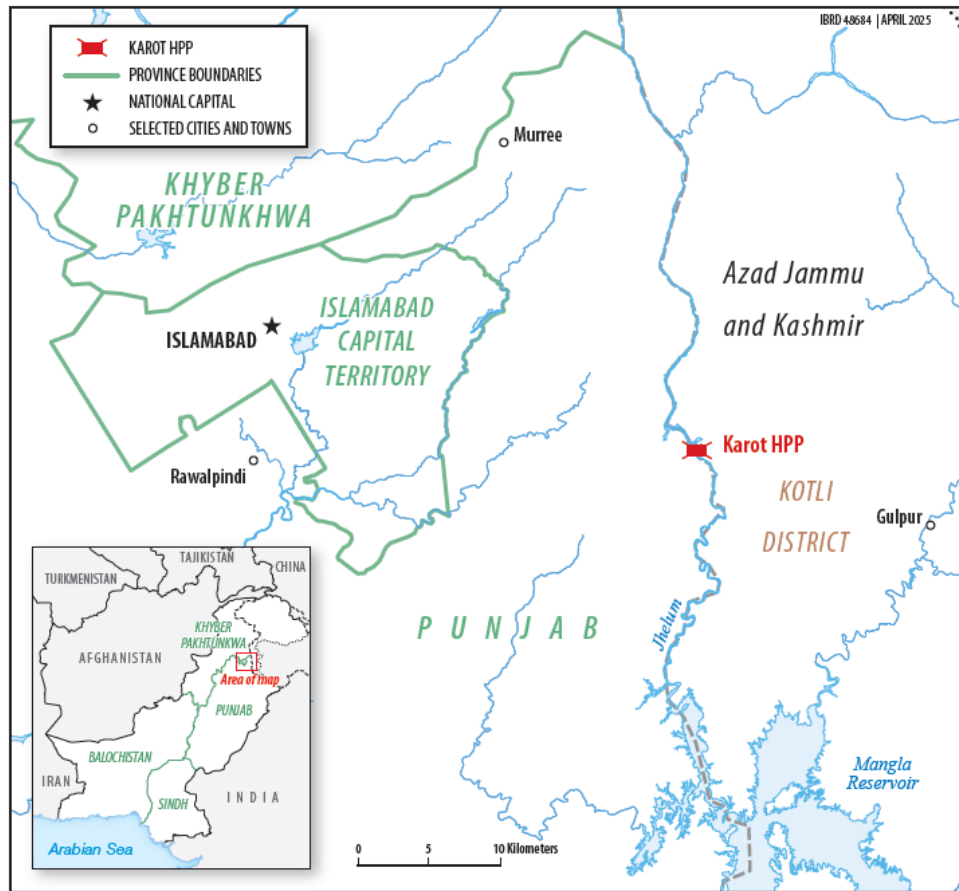
**Figure 1.1. IFC's Exposure to the Karot Hydropower Project, Pakistan<sup>25</sup>**



<sup>24</sup> The commercial operations start date is the point when a project is fully operational and ready to generate revenue, after construction is complete and commissioning takes place.

<sup>25</sup> IFC, Karot Hydro: Summary of Investment Information (SII), <https://bit.ly/2V0OcDH>; and Overview of Pakistan's Power Sector and Its Future Outlook. September 2022, <https://officecao.org/4or4wG9>.

**Figure 1.2. Project Location**



## 1.2 The Complaint and CAO Process

### 1.2.1 Summary of Complaints

7. This compliance investigation report of the Office of the Compliance Advisor Ombudsman (CAO) addresses three complaints related to the project’s developer and EPC contractor: Karot Hydro-02, Karot Hydro-03, and Karot Hydro-04.<sup>26</sup> The Karot Hydro-02 case involves allegations of unfair dismissal, incorrect wage payments, and discrimination against local Pakistani workers. Karot Hydro-03 raises concerns about interference in union activities, inadequate occupational health and safety (OHS) conditions, low wages, improper dismissal practices, and inadequate

<sup>26</sup> In March 2019, CAO received the first complaint regarding the Karot Hydropower Project (Karot Hydro-01). CAO determined this complaint to be ineligible because it was anonymous and CAO’s 2013 Operational Guidelines (para. 1.4), which were in effect at the time, stipulated that CAO could not accept an anonymous complaint. In July 2022, CAO received the Karot Hydro-05 and Karot Hydro-6 complaints. They were deemed eligible and referred to IFC where they are still managed. In August 2022, CAO received the Karot Hydro-07 complaint, which was resolved in December 2024 by an agreement reached through dispute resolution. The case agreement was monitored by CAO until June 2025, and the parties have committed to implementing the terms of the agreement for a minimum of two years beyond CAO’s involvement. The CAO case closed in November 2025. An additional Karot Hydro-08 complaint was filed in February 2024 but closed by CAO during the assessment phase because the complainants stated that their issue had been resolved. Lastly, the Karot Hydro-09 complaint was filed in August 2024 and determined to be ineligible. More information on these complaints can be found on the CAO website at <https://www.cao-ombudsman.org/cases>.

workers' grievance mechanism. Karot Hydro-04 raises concerns about unfair hiring practices, unjust dismissals, and forced resignations of local workers from Azad Jammu and Kashmir. The details of each complaint are summarized below. Due to the similarity of issues, CAO merged the three complaints into one compliance investigation.<sup>27</sup>

### **Karot Hydro-02<sup>28</sup>**

8. In August 2019, CAO received a complaint from a former worker of TGDC, the dam site's engineering and construction contractor, expressing concerns over:
  - **Unfair dismissal** and withheld wages upon termination
  - **Discrimination** against local Pakistani workers compared with Chinese workers, particularly in terms of on-site services. The complaint alleged that Pakistani workers paid more for food than other workers, and had substandard access to drinking water, accommodations, and transportation at the worksite.
9. During CAO's initial assessment of the Karot Hydro-02 complaint, the complainant ceased communication with CAO, and multiple attempts to reestablish contact were unsuccessful. As CAO's dispute resolution process requires voluntary agreement to participate by both the complainant(s) and the IFC client, the case was transferred directly to CAO's compliance function in December 2020 for appraisal, in accordance with the CAO 2013 Operational Guidelines.<sup>29</sup>

### **Karot Hydro-03<sup>30</sup>**

10. In July 2020, representatives of two unions—the Building and Wood Workers International (BWI) and its affiliate the Pakistan Federation of Building and Wood Workers (PFBWW) filed a complaint with CAO on behalf of the Awami Labor Union (ALU).<sup>31</sup> The ALU was established for the Karot Hydropower Project and is affiliated with the PFBWW.
11. The complaint raised the following concerns about adverse project impacts on Pakistani workers at the dam complex:
  - **Freedom of Association.** Complainants alleged that KPCL interfered with the establishment and operation of a trade union and that on-site security personnel created an intimidating atmosphere that impacted workers' ability to freely exercise their rights in the collective bargaining process.
  - **Workers' health and safety.** Complainants claimed that KPCL did not provide adequate personal protective equipment (PPE) to workers or implement appropriate COVID-19 procedures leading to unsafe conditions.
  - **Terms of employment.** Complainants alleged that wage levels were below comparative industries in Pakistan, workers did not receive benefits required under Pakistan law, and workers were dismissed without justification or compensation.
  - **Workers' grievance mechanism (WGM).** Complainants alleged that the IFC client has not

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<sup>27</sup> Karot Hydro-02 and Karot Hydro-03 were merged in April 2021 during CAO's Appraisal, while Karot Hydro-04 was merged with the other two complaints in December 2024 during the investigation phase.

<sup>28</sup> For more on the Karot Hydro-02 case, see <https://officecao.org/3CyyYPM>.

<sup>29</sup> In May 2022, during the investigation process, CAO was able to reestablish communication with the complainant and send him the compliance appraisal report, which highlighted the issues under investigation.

<sup>30</sup> For more on the Karot Hydro-03 case, see <https://officecao.org/Karot03>.

<sup>31</sup> The official name of the organization is "Awami Labour Union, China Three Gorges Corporation Karot Power Company Private Limited." It was established in May 2017.

established a mechanism for workers' complaints at the hydropower site.

12. Following CAO's assessment, KPCL offered to engage in a dispute resolution process, but the complainants expressed their preference for the case to go to CAO's compliance function for appraisal. This occurred in April 2021, under CAO's 2013 Operational Guidelines.

#### **Karot Hydro-04**<sup>32</sup>

13. In May 2022, CAO received a complaint from the president of the Karot Dam Action Committee in Pakistan on behalf of eight workers living in Kotli District of the Azad Jammu and Kashmir region, adjacent to the hydropower site.
14. The complainants alleged:
  - **Unfair hiring and employment practices at the project site**, including favoritism, nepotism, and discrimination against residents of Azad Jammu and Kashmir. The complainants alleged that many highly qualified and experienced professional engineers from the Kotli area were not being considered for jobs.
  - **Unfair dismissal of a complainant**, employed by TGDC. The former worker claimed his dismissal in January 2020 was directly linked to his efforts to secure a fair and livable income.
  - **Forced resignation of two complainants**. One claimed that he was forced to resign from his position as a safety engineer with TGDC in February 2019 because of his efforts to address and highlight inequities KPCL's hiring practices. The second complainant alleged that in September 2021, after four years as a health and safety officer for TGDC, he was asked to resign because he had requested personal leave.<sup>33</sup>
15. In June 2022, CAO found the complaint eligible for assessment and referred it to IFC, at the complainants' request, to address the concerns raised.<sup>34</sup> The referral process lasted nine months and involved continuous engagement between IFC and the complainants, including an in-person meeting in September 2022. IFC commissioned an independent assessment of KPCL's recruitment policies and labor practices, and KPCL submitted a response to the complaint. However, in March 2023, IFC informed CAO of its decision to end the referral process, noting that the complainants did not agree with IFC's findings and were frustrated with the process. Shortly after, the complainants stated their desire for CAO to resume processing the complaint.
16. During CAO's assessment process, which commenced in March 2023, CAO was able to contact seven of the eight complainants. In September 2024, after a dispute resolution process facilitated by CAO failed to resolve the issues in the complaint, the case was transferred to CAO's compliance function.
17. In December 2024, CAO completed its compliance appraisal, concluding that the issue of unfair hiring practices would be closed at the appraisal, and that the issues related to unfair dismissal and forced resignation would continue to compliance investigation.

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<sup>32</sup> For more on the Karot Hydro-04 case, see <https://officecao.org/PakistanKarot04>.

<sup>33</sup> In September 2025, one complainant in Karot Hydro-04 informed CAO that they were withdrawing from the CAO case.

<sup>34</sup> CAO, *IFC and MIGA Independent Accountability Mechanism (CAO) Policy*, para. 39, 2021, <https://officecao.org/3YsQnPo>.

## 1.2.2 CAO Process

18. The Karot Hydro-02 and Karot Hydro-03 cases were merged in April 2021 during CAO's compliance appraisal phase. In January 2022, CAO published a compliance appraisal report for these cases that identified questions concerning IFC compliance and the potential for related adverse impacts on workers. CAO determined that the issues raised by complainants warranted a compliance investigation, except for the individual allegation of unfair dismissal and payment raised in the Karot Hydro-02 complaint, which was closed at appraisal.<sup>35</sup>
19. In December 2024, CAO completed its compliance appraisal of Karot Hydro-04 concluding that the issue of unfair hiring practices would be closed at appraisal, and the issues related to unfair dismissal and forced resignation would continue to compliance investigation. CAO also decided to merge the case with the ongoing investigation of the Karot Hydro-02 and Karot Hydro-03 cases given the similarities of issues raised in the complainants.<sup>36</sup>

## 1.3 Summary of Responses from IFC Management and the Client

### 1.3.1 IFC Management Response

20. IFC did not submit a Management Response to CAO for the Karot Hydro-02 and Karot Hydro-03 cases because it was not a required to do so under CAO's 2013 Operational Guidelines, which were in effect when the compliance appraisal began in April 2021.<sup>37</sup> However, IFC did share the following documents and technical reports, which supported CAO's analysis during its investigation: (1) project documents—the Environmental and Social Impact Assessment (ESIA), the Environmental and Social Review Summary (ESRS), the Environmental and Social Action Plan (ESAP), and the Environmental and Social Management Plan (ESMP)—which provided the framework for E&S actions; (2) site supervision reports; (3) monitoring reports from the Lenders' IESC; (4) IFC labor consultant reports; (5) internal memos; (6) disbursement statements; and (7) KPCL's E&S and OHS policies and procedures.
21. In October 2024, IFC submitted a Management Response in response to the Karot Hydro-04 complaint claiming that that KPCL had conducted an independent review of its hiring processes and concluded they had complied with their internal human resources (HR) policies. A separate IFC review of the allegations of unfair hiring practices found the client's practices aligned with PS2 (Labor and Working Conditions) requirements.<sup>38</sup>
22. In addition, IFC noted that during its supervision its client had:
  - Followed HR policies, including appropriate commitments to equal opportunities and nondiscrimination according to local regulations and PS2.
  - Periodically monitored diversity and local hiring indicators in the on-site workforce and reported them directly to IFC directly and through the Lenders' IESC as part of ongoing project supervision.
  - Regularly updated community representatives on project progress through community relations management plan committees.

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<sup>35</sup> CAO, Compliance Appraisal: *Karot Hydro, Pakistan (IFC Project #34062 and #36008); Complaint Karot-02 and 03/Jheum River* (CAO, January 2022), <https://officecao.org/3XES6Rc>.

<sup>36</sup> CAO, Compliance Appraisal Report: *CAO Compliance Appraisal of Complaint Regarding IFC's Investment in Karot Power Company Ltd. (KPCL), Pakistan*, (CAO, December 2024), <https://officecao.org/3F11dV1>.

<sup>37</sup> CAO Operational Guidelines (CAO, 2013), <https://officecao.org/3Nq5IKn>.

<sup>38</sup> CAO, Compliance Appraisal Report: *Karot Hydro-04*, appendix 2. <https://officecao.org/3F11dV1>.

- Reported hiring a significant number of local workers from affected communities during its peak employment period in the fourth quarter of 2019.
  - Followed hiring policies and procedures that an external labor expert engaged by IFC concluded were consistent with PS2, including those related to nondiscrimination.
23. Regarding the complaints of unfair dismissal and forced resignation, IFC noted that it has not received sufficient information to assess compliance with PS2 in these particular cases, but it verified that the client operated termination procedures and grievance mechanisms that align with local laws and PS2.

### 1.3.2 IFC Client's Response

24. During CAO's assessment phase in 2020, KPCL responded to the Karot Hydro-02 and Karot Hydro-03 complaints by claiming that the project was being developed in compliance with applicable national labor laws and IFC's Performance Standards (PS) on Environmental and Social Sustainability. KPCL shared supporting documentation and asserted that it continuously strived to improve working conditions at the hydropower site. KPCL also highlighted IFC's support throughout project development and implementation.
25. In responding to the Karot Hydro-04 complaint, KPCL stated that the complainants alleging unfair dismissal and forced resignation were employed by TGDC, the EPC contractor during construction. KPCL further asserted that there was no evidence or records supporting the claims of the former workers.<sup>39</sup>
26. Moreover, in 2024, the plant's operating company claimed that all past worker grievances it had reported to TGDC had been addressed or compensated and that no cases of illegal termination or forced resignation were recorded or received by KPCL following two public campaigns run by TGDC. KPCL added that TGDC developed HR and labor policies approved by IFC to ensure transparency and accountability and has provided training to workers at all levels.
27. During the CAO investigation, KPCL emphasized that the project complies with Pakistani law and IFC's Performance Standards. It mentioned that site-specific ESMPs related to construction periods, numerous subcontractors and complex engineering requirements were developed and implemented in a timely manner, guided by IFC standards, despite challenges typical of large-scale hydropower projects. KPCL noted that nondiscrimination principles were upheld, with differences in treatment based on job roles rather than nationality. Worker accommodations, transportation, food allowances, and drinking water were managed equitably, with improvements made over time to address initial shortcomings.
28. KPCL noted that workers' rights to unionize were respected and supported by training, policies, and grievance mechanisms, including the establishment of a Worker Council and Management Committee (WCMC) to effectively address grievances. Challenges with union legitimacy and registration were attributed to procedural issues, not interference by KPCL. A robust OHS system was implemented, with continuous monitoring and corrective actions.
29. KPCL also stated that early issues like delayed wages and dismissals were resolved through corrective measures, with transparent demobilization plans ensuring compliance with labor laws and standards. Lastly, a Grievance Redress Mechanism was established to effectively address worker concerns, with a decline in grievances after 2021.

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<sup>39</sup> CAO, Compliance Appraisal Report: Karot Hydro-04, appendix 3, see <https://officecao.org/3F11dV1>.

## 1.4 CAO Investigation Scope and Methodology

### 1.4.1 Investigation Scope

30. The purpose of the CAO compliance function is to carry out reviews of IFC's compliance with its E&S policies, assess related Harm, and recommend remedial actions where appropriate.<sup>40</sup> In accordance with the CAO Policy (effective July 1, 2021), this report presents investigation findings regarding IFC compliance, noncompliance, and related Harm, including context, evidence, and reasoning to support CAO's findings and conclusions regarding the underlying causes of any identified noncompliance by IFC. CAO offers recommendations for IFC to consider in developing a Management Action Plan (MAP) to remediate project-level noncompliance and related Harm, as well as systemic level recommendations to prevent future noncompliance.<sup>41</sup>
31. As outlined in terms of reference issued in January 2022, this compliance investigation focuses on IFC's due diligence and supervision of the Karot project with respect to the assessment, prevention, and mitigation of project impacts on labor issues.<sup>42</sup> The terms of reference established the following questions for the investigation:
- Whether IFC has complied with its E&S Policies, including:
- a. Whether IFC has materially deviated from relevant directives and procedures
  - b. How IFC reviewed and supervised the project's compliance with its E&S requirements, including applicable national law where relevant to IFC E&S requirements.
- Whether there is Harm or potential Harm related to any IFC noncompliance.
32. This investigation considers these questions in relation to the complaint issues that CAO determined merited investigation. Specifically:
- a. Discrimination against local Pakistani workers in terms of working conditions
  - b. Freedom of association and site security
  - c. Workers' health and safety
  - d. Terms of employment and retrenchment
  - e. Workers' grievance mechanism.
33. CAO's investigation examines whether IFC fulfilled its obligation under the IFC Policy on Environmental and Social Sustainability of 2012 (Sustainability Policy) to obtain the information necessary to assess the status of the project's compliance with IFC's Performance Standards. CAO specifically considered whether IFC adequately assessed and supervised the client's application of the E&S requirements for:
- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
  - Performance Standard 2: Labor and Working Conditions

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<sup>40</sup> Harm is defined in the CAO Policy as “[a]ny material adverse environmental and social effect on people or the environment resulting directly or indirectly from a Project or Sub-Project. Harm may be actual or reasonably likely to occur in the future” (p. iv).

<sup>41</sup> CAO Policy, para. 120c. Available at: <https://bit.ly/CAO-Policy>.

<sup>42</sup> CAO, Terms of Reference for Compliance Investigation of IFC, January 2022. Annex of Appraisal Report. Available at: <https://officecao.org/KarotHydro03ComplianceAppraisal> and <https://officecao.org/KarotHydro02ComplianceAppraisal>.

- Performance Standard 4: Community Health, Safety, and Security.

34. The standard CAO applied for assessing Harm to project-affected people related to IFC noncompliance as stipulated in the CAO Policy. It defines “Harm” as “any material adverse environmental and social effect on people or the environment resulting directly or indirectly from a Project or Sub-Project. Harm may be actual or reasonably likely to occur in the future.” References to “harm” that are not capitalized should be read in accordance with the ordinary and customary meaning given to the term. Following a finding of IFC noncompliance, CAO investigation reports make one of the following assessments of related Harm:

- There has been Harm to complainants. This conclusion is reached where there is sufficient relevant evidence to afford a reasonable basis for CAO’s compliance conclusion.
- There are indications of Harm to complainants. This conclusion is reached on the basis of available evidence that would indicate a likelihood that Harm is actual or reasonably likely to occur in the future.
- There is insufficient evidence to reach a conclusion on Harm to complainants.

### **1.4.2 Investigation Methodology**

35. In conducting this investigation, CAO engaged an independent labor expert to provide technical advice on the issues raised in this compliance investigation.

36. CAO staff worked with the external expert to undertake the following activities:

- Reviewed IFC’s documentation of the Karot project and other project-related materials shared by IFC and the client
- Conducted in-person and virtual interviews with IFC project staff and IFC E&S consultants
- Conducted a field visit to Pakistan and the project area, where interviews with complainants from cases Karot Hydro-02 and Karot Hydro-03 and with KPCL took place
- Engaged with Pakistani government institutions and the Lenders’ IESC for the project
- After CAO merged Karot Hydro-02 and Karot Hydro-03 with Karot Hydro-04 in December 2024, CAO reviewed relevant documentation related to Karot Hydro-04 issues.

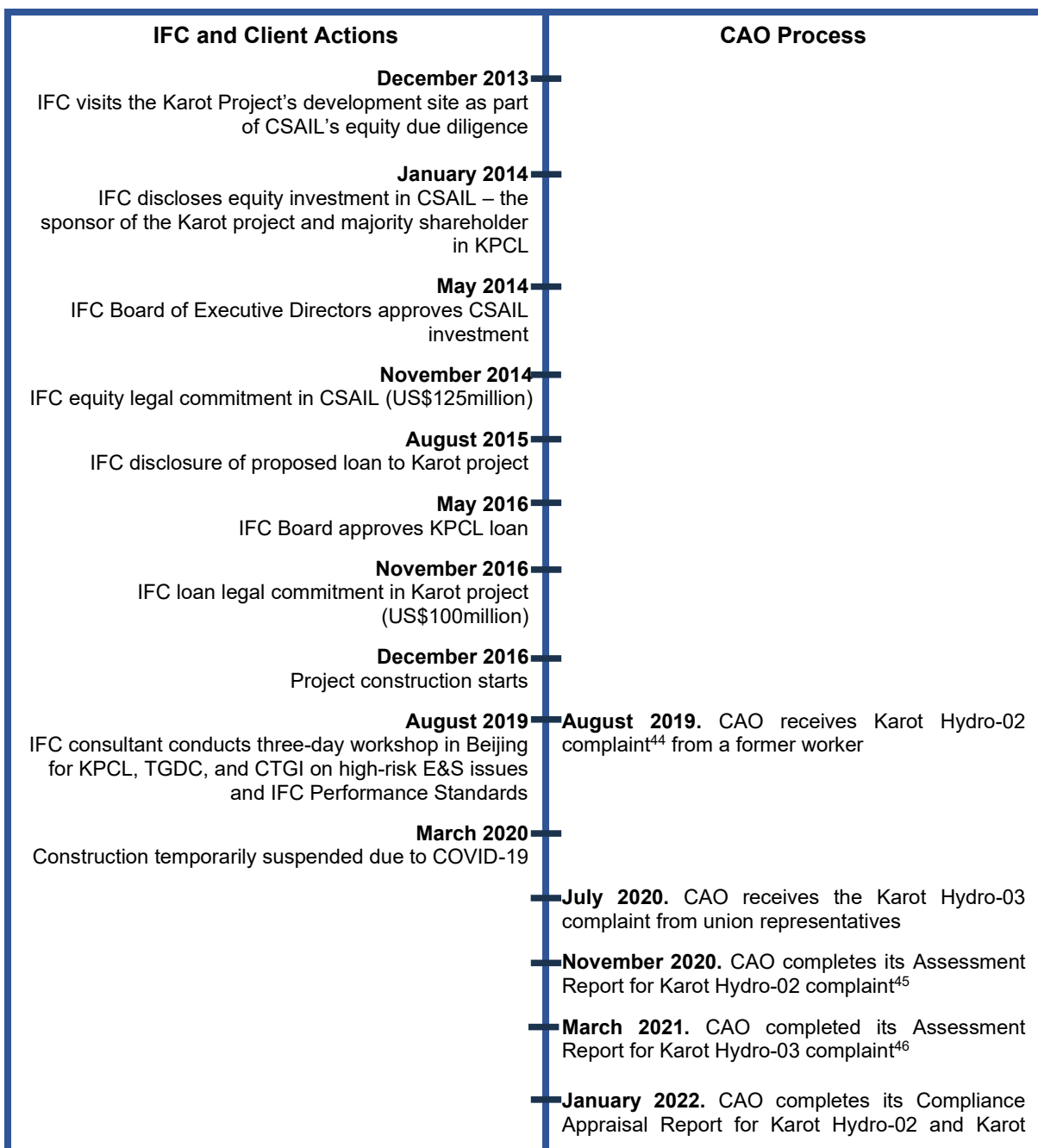
37. In reaching findings of compliance or noncompliance and related Harm, CAO assesses whether there is evidence that IFC applied relevant E&S requirements, considering the sources of information available at the time the decisions were made. CAO does not make findings and conclusions with the benefit of hindsight.<sup>43</sup>

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<sup>43</sup> CAO Policy, para. 116.

## 1.5 Timeline of Key Events

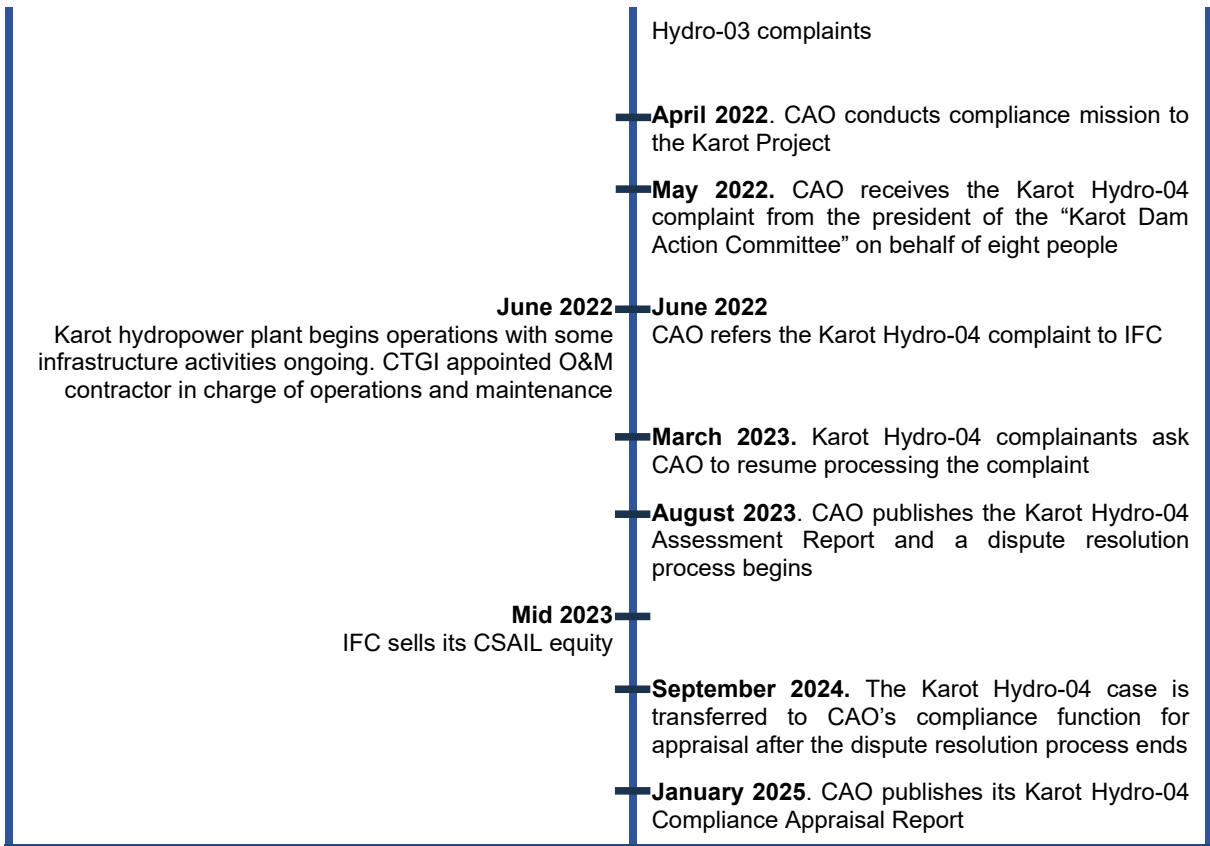
38. The timeline below shows key events regarding IFC investments, the Karot project development, and the complaints to CAO.



<sup>44</sup> In March 2019, CAO received the first complaint regarding the Karot Hydropower Project (Karot Hydro-01). CAO determined this complaint to be ineligible because it was anonymous and CAO's 2013 Operational Guidelines (para. 1.4), which were in effect at the time, stipulated that CAO could not accept an anonymous complaint.

<sup>45</sup> Information about CAO's Karot Hydro- 2 case is available at <https://officecao.org/Karot02>.

<sup>46</sup> Information about CAO's Karot Hydro- 3 case is available at <https://officecao.org/Karot03>.



## 2. National Context Related to Terms of Employment and Freedom of Association for IFC's Investments

39. The issues raised by the three complaints to CAO concerning employees' rights and working conditions at the Karot hydropower complex arose in a national context in which restrictions to freedom of association and terms of employment issues are not uncommon. Both the ILO 2014 Pakistan Decent Work Country Profile and the 2013 and 2014 International Trade Union Confederation (ITUC) Global Rights Index highlighted significant labor challenges in the country, related to minimum wage, excessive working hours, OHS, and freedom of association.<sup>47</sup> Later, the ILO's Decent Work Country Program 2016-2020 reinforced significant challenges in Pakistan, including low unionization levels, weak compliance with relevant laws, poor working conditions, and a weak labor inspection regime.<sup>48</sup> This background was material to IFC's risk assessment of a project employing thousands of workers and should have explicitly informed its pre-investment due diligence, including its review of relevant aspects of the project's environmental and social assessment and management plans, the environmental and social action plan (ESAP), as well as its subsequent supervision of the construction of the hydropower project.
40. This section provides a brief overview of freedom of association in Pakistan as laid out in national and Punjab provincial legislation as well as Pakistan's commitments to the International Labour Organization (ILO) conventions that establish the global framework for labor rights. The summary is based on observations by the International Trade Union Confederation (ITUC)<sup>49</sup> and the 2012 and 2022 ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) reports.<sup>50</sup> For more details on the legal framework governing freedom of association in Pakistan, see Annex A.

### 2.1 Legal Framework for Freedom of Association in Pakistan

41. ITUC notes that the right to freedom of association is enshrined in the Pakistan constitution, providing a formal basis for workers to form and join trade unions. This constitutional guarantee is further recognized by law, providing a legal basis for workers to organize collectively. However, ITUC notes that strict regulation of freedom of association in Pakistan often imposes significant constraints on the ability of workers to exercise this right. These constraints take various forms, including bureaucratic hurdles, restrictive legal provisions, and administrative oversight, which can collectively hinder the formation and operation of trade unions at development project sites. For example, administrative authorities have the power to unilaterally dissolve, suspend, or

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<sup>47</sup> ITUC and ILOs documents available here: <https://officecao.org/43Yw0LJ>, <https://officecao.org/4ntWNYw>, and <https://officecao.org/469V1Ft>.

<sup>48</sup> Pakistan Decent Work Country Programme III (2016-2020) is a joint effort of the Government of Pakistan, the Employers' Federation of Pakistan (EFP) and the Pakistan Workers' Federation (PWF) with support from the ILO Country Office Islamabad. Report published September 2016, <https://officecao.org/3RdpOsl>.

<sup>49</sup> While the International Trade Union Confederation (ITUC) is a global labor federation representing workers' organizations, its Global Rights Index ratings and country reports are widely cited by international bodies — including the International Labour Organization (ILO), the Office of the High Commissioner for Human Rights (OHCHR), and the World Bank Group and the International Finance Corporation (IFC) — as supplementary indicators of national labor rights conditions. In IFC's Performance Standard 2 Guidance Note (GN2), which provides interpretive guidance for applying PS2, the section on Freedom of Association and Collective Bargaining advises investors to be aware of country-specific restrictions and explicitly cites ITUC's Global Rights Index as a source for understanding the extent to which national laws and practices align with international labor standards.

<sup>50</sup> ITUC, freedom of association. Available here: <https://officecao.org/4iZ6yLD>, and ILO, Committee on Freedom of Association (CFA). Available here: <https://officecao.org/4qWIRn3> and <https://officecao.org/4o3xjkb>.

unregister trade union organizations.<sup>51</sup>

42. In 2014, the year IFC invested in CSAIL, ITUC's Global Rights Index gave Pakistan a rating of 4/5, indicating systemic violations and efforts by government and/or companies to suppress workers' collective voice<sup>52</sup> By 2024, Pakistan's rating had declined to 5, "no guarantee of rights."<sup>53</sup>
43. ITUC also notes that Pakistan's legal framework does not offer specific protections for workers who choose to join or form unions.<sup>54</sup> The absence of robust legal protection undermines the effectiveness of trade unions and discourages workers from engaging in collective bargaining and other union activities.<sup>55</sup> Hence, while Pakistan guarantees the constitutional and legal right to freedom of association, the ITUC reports that, in practice, there are significant obstacles to the practical realization of this right, as described below.

## 2.2 Ratification of ILO Conventions

44. The right of workers to establish and join organizations of their choosing is a fundamental principle enshrined in international labor standards, primarily those set by the ILO. These standards were ratified by Pakistan in 1947.<sup>56</sup> Pakistan's 2012 Industrial Relations Act (IRA) and the Punjab Industrial Relations Act (PIRA) govern the right to establish and join organizations of choice.<sup>57</sup> Sections 20(b) and (c), 22, 33, 35, and 65(1) of the IRA (and PIRA), delineate the specific rights and privileges granted only to collective bargaining agents acting on behalf of workers, including the authority to represent workers in various proceedings and access to check-off facilities.<sup>58</sup> According to the IRA, section 19(1), a trade union must meet specific membership thresholds to be eligible for collective bargaining. Section 24(1) of the PIRA stipulates that where there is only one trade union within an establishment, group of establishments, or industry, its membership must include at least one-third of employees to engage in collective bargaining. A more in-depth analysis of restrictions to trade unions and their activities relevant to this case can be found in Annex A.
45. While ratification demonstrates formal commitment, reports indicate that the implementation of

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<sup>51</sup> ITUC 2024 Global Rights Index, Pakistan page: <https://officecao.org/45PBmuG>.

<sup>52</sup> ITUC Global Rights Index 2014, p. 69. Rating 4/5 is defined as: "Workers in countries with the rating of 4 have reported systematic violations. The government and/or companies are engaged in serious efforts to crush the collective voice of workers putting fundamental rights under continuous threat." Available here: <https://officecao.org/46SpDLN>.

<sup>53</sup> ITUC, Pakistan rating, available here: <https://officecao.org/3GsmFDj>.

<sup>54</sup> ITUC, freedom of association. Available here: <https://officecao.org/4iZ6yLD>.

<sup>55</sup> Samina Ali and Dr. Muhammad Zubair Khan, A Comprehensive Analysis of Unfair Labor Practices in Pakistan from the Perspective of National and International Law, December 2024. Available here: <https://officecao.org/46mmvld>. Similarly, in Pakistan, it has been identified that "some transnational corporations resort to tactics to curb union activities similar to national companies or the government. The 'measures' include unlawful termination of service." See Status of Labour Rights in Pakistan 2015. Available here: <https://officecao.org/47UUCrH>.

<sup>56</sup> Since 1947, Pakistan has ratified 36 International Labor Organization (ILO) conventions, including eight core conventions. Of these, 31 conventions are currently in force. The International Labor Organization (ILO) is a United Nations agency that sets international labor standards and promotes social protection and work opportunities for all. Pakistan has been an active member of the ILO since its inception in 1947. The core conventions ratified by Pakistan cover fundamental principles and rights at work, including: Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Forced Labor Convention, 1930 (No. 29); Abolition of Forced Labor Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labor Convention, 1999 (No. 182); Equal Remuneration Convention, 1951 (No. 100); and Discrimination (Employment and Occupation) Convention, 1958 (No. 111). The ILO ratifications for Pakistan are available here: <https://officecao.org/3FZxix5>.

<sup>57</sup> Industrial Relations Act, 2012. Available here: <https://officecao.org/3W4ljTu>.

<sup>58</sup> A check-off facility is a system where union dues are deducted from an employee's wages.

these ILO standards remains a challenge.<sup>59</sup> The government of Pakistan, along with various stakeholders, is working to address these challenges through legislative reforms, public awareness campaigns, and capacity-building initiatives. In recent years, Pakistan has shown a renewed commitment to improving occupational safety and health standards.<sup>60</sup>

### **2.3 Implications of National Context**

46. The documented constraints on freedom of association and weak enforcement of labor protections in Pakistan pointed to a high-risk environment for workers at large infrastructure projects. ESDD and supervision under IFC's Sustainability Framework would need to explicitly account for these risks.

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<sup>59</sup> ILO, Committee on Freedom of Association (CFA). Available here: <https://officecao.org/4o3xjkb>.

<sup>60</sup> ILO Decent Work Country Programme for Pakistan (2023-27) (ILO, 2023) <https://officecao.org/3i8LftG>.

### 3. CAO Compliance Analysis and Findings

47. This section presents a summary of IFC's E&S policies and procedures relevant to the complaint, followed by CAO's compliance analysis and findings with respect to IFC's pre-investment review and supervision activities. For each complaint issue—discrimination, freedom of association, workers' health and safety, employment terms, and workers' grievance mechanism—the subsections covers the complainants' perspective, relevant IFC and client E&S requirements, IFC's actions, and CAO's analysis of these actions and findings on related Harm to the complainants.

#### 3.1 IFC Sustainability Framework

48. IFC's investment in CSAIL (2014) and KPCL (2016) were made in the context of its Sustainability Policy and Performance Standards (PS), together referred to as the Sustainability Framework.<sup>61</sup>
49. The Sustainability Policy details IFC's commitments to E&S sustainability in its investment activities. Through the Sustainability Policy, *"IFC seeks to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards"* (para. 7). The Sustainability Policy also notes that *"central to IFC's development mission are its efforts to carry out investment and advisory activities with the intent to 'do no harm' to people and the environment"* (para. 9). With regard to IFC's private sector clients, the policy emphasizes the responsibility of business to respect human rights and for IFC to undertake due diligence of the level and quality of risks and impacts posed by an investment, informed by country and sector knowledge (para. 12).
50. Clients are required to meet the Performance Standards, and IFC can only invest in a project when the activities it finances *"are expected to meet the requirements of the Performance Standards within a reasonable period of time"* (para. 22). To address potential project impacts on people and the environment, IFC must conduct a pre-investment E&S review that is *"commensurate with the nature, scale, and stage of the business activity, and with the level of [E&S] risks and impacts"* (para. 26). IFC's review is required to identify any gaps in the client's practices and propose additional measures and actions to resolve them in line with Sustainability Framework requirements. IFC captures these supplemental actions in an ESAP and incorporates them as conditions of its investment (para. 28). During project supervision, the Sustainability Policy highlights the need for continuous improvement in E&S performance, encouraging clients to adopt best practices and innovative solutions (para. 27).
51. Following Board approval of an investment, IFC monitors the project to ensure compliance with the conditions in the investment agreements and applicable IFC policies and standards (paras. 7 and 45). The Sustainability Policy states that *"if the client fails to comply with its environmental and social commitments as expressed in the legal agreements and associated documents, IFC will work with the client to bring it back into compliance, and if the client fails to reestablish compliance, IFC will exercise its rights and remedies, as appropriate"* (paras. 24 and 45).

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<sup>61</sup> IFC (International Finance Corporation), *IFC Policy on Environmental and Social Sustainability Policy* (IFC, 2012) and IFC (International Finance Corporation), *IFC Performance Standards on Environmental and Social Sustainability* (IFC, 2012), <https://officecao.org/4mq6vdY>.

52. For each project, IFC discloses an ESRS of the IFC’s review of the project’s E&S risk and impacts in relation to the Performance Standards, key mitigation measures (e.g., ESAP), and key project E&S documentation.<sup>62</sup> Where possible, IFC’s review also evaluates the E&S performance of a representative set of past and prospective identified projects to measure the effectiveness of the client’s E&S management system.
53. The Performance Standards define IFC clients’ responsibilities for managing the E&S risks and impacts of their business operations throughout the life of IFC’s investment. CAO’s compliance report specifically reviews the performance of hydropower plant developer and operator KPCL, and its construction contractors, in relation to the following IFC Performance Standards:<sup>63</sup>
- PS1: Assessment and Management of Environmental and Social Risks and Impacts
  - PS2: Labor and Working Conditions. Promoting fair treatment, non-discrimination, and compliance with national laws, guided by international conventions and instruments
  - PS4: Community Health, Safety, and Security.

See Annex B for a summary of relevant Performance Standard requirements, Guidance Notes, and Pakistani national law relevant to this investment.

## 3.2 CAO Analysis of IFC Environmental and Social Due Diligence

54. This section presents CAO’s analysis and findings regarding IFC’s compliance during pre-investment due diligence with requirements under the Sustainability Policy with regard to the allegations of adverse labor impacts at the Karot project site in the Karot Hydro-02, Karot Hydro-03, and Karot-04 complainants.<sup>64</sup> IFC’s due diligence of its 2014 equity investment in CSAIL and its 2016 loan to KPCL are examined.
55. Based on this analysis, CAO identifies shortcomings in IFC’s pre-investment due diligence regarding freedom of association and terms of employment.

### 3.2.1 Relevant Requirements

56. The Sustainability Policy mandates that IFC’s ESDD be commensurate with the nature, scale, and stage of the business activity, as well as with the level of E&S risks and impacts.<sup>65</sup> Where IFC makes an investment in holding company such as CSAIL, IFC’s review should encompass the firm’s full range of operations, including the significant operations of its subsidiaries and any companies under its management control. IFC must assess the capacity, maturity, and reliability of the client’s E&S corporate management system to manage E&S performance effectively, ensuring compliance with the Performance Standards for current and future projects. When

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<sup>62</sup> For more on IFC’s 2012 Access to Information Policy, see the IFC Project Information and Data Portal at <https://officecao.org/4nhR5s9>.

<sup>63</sup> CAO does not make findings about the compliance of a project, subproject, client, or subclient with the Performance Standards. When making findings regarding Harm and whether any Harm is related to IFC/MIGA noncompliance with its E&S Policies, CAO assesses IFC/MIGA’s review and supervision of its E&S requirements at the project- or subproject level considers project- or subproject-level E&S performance (CAO Policy, para. 77).

<sup>64</sup> The complaints have raised concern regarding (i) Discrimination against local Pakistani workers; (ii) Freedom of Association; (iii) Worker’s health and safety; (iv) Terms of employment and (v) Workers’ grievance mechanism. See Section 1.2 for further details.

<sup>65</sup> IFC Sustainability Policy (2012), para. 26.

possible, IFC's due diligence should also include an evaluation of the E&S performance of a representative set of past and prospective identified projects to measure the management system's effectiveness.<sup>66</sup>

### 3.2.2 IFC's Due Diligence of Its Equity Investment in CSAIL (2013-14)

57. CSAIL acquires, develops, builds, owns, and operates renewable power generation projects in Asia and the Pacific. In 2013 and 2014, during its due diligence for IFC's investment in CSAIL, IFC E&S staff conducted eight site visits to the four projects managed by CSAIL, including the Karot hydropower site, then in development, to evaluate associated environmental and social risks.
58. IFC's ESRS for the investment as well as the ESAP agreed with CSAIL were disclosed in January 2014.<sup>67</sup> According to the ESRS, CSAIL's activities were to develop solar, wind, and hydro projects with over 2,000 megawatts of total capacity, 1,820 megawatts of which would be generated by two major hydro projects. At the time of IFC's investment, one wind power project was under construction and all other projects were in various stages of identification or development.
59. The ESRS stated that, *"before investing in any single CSAIL asset to be developed, IFC would undertake further E&S due diligence on that specific project. Even where IFC does not participate in future CSAIL-developed projects, the terms of IFC's equity investment obligate CSAIL to conduct full E&S due diligence of each project under development and to demonstrate compliance of these projects with IFC's Performance Standards. The primary concern of IFC's E&S review before making the investment in the CSAIL holding company is to ensure that CSAIL will have the required E&S capacity to meet its obligations on individual projects."*
60. As relevant to this investigation, IFC's due diligence as summarized in the ESRS concluded:
  - (1) that CSAIL did not have an operating environmental and social management system (ESMS), but that it would establish an ESMS in line with that of the ultimate parent company China Three Gorges Corporation (CTGC);
  - (2) In the meantime, until such ESMS was established, CSAIL's working conditions for the project would rely on China Three Gorges International (CTGI) procedures, staff, and contractors;
  - (3) CSAIL, the project's sponsor, followed CTGI's HR policies but required supplemental policies and practices to ensure its labor policy was in compliance with IFC's PS2 specifically in areas such as Human Resources Policy, Worker/Contractor GM procedure, and an OHS procedures manual;
  - (4) there were identified E&S risks including contractor labor practices related to accommodations, and the need for strong project grievance mechanisms; and
  - (5) CSAIL committed to set up a system to monitor contractor compliance with labor laws and maintain OHS standards.<sup>68</sup>
61. The ESAP outlined several actions for CSAIL to undertake to meet IFC's E&S standards,<sup>69</sup> including the following:

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<sup>66</sup> IFC, *Sustainability Policy*, Para 26-28, and IFC E&S Review Procedures (2013), section 3.2.1.

<sup>67</sup> IFC, CSAIL ESRS. Available here: <https://officecao.org/4o6VttY>.

<sup>68</sup> IFC, CSAIL ESRS. Available here: <https://officecao.org/4o6VttY>.

<sup>69</sup> IFC CSAIL Equity ESRS, ESAP. Available here: <https://officecao.org/4o6VttY>.

<b>Anticipated completion date</b>	<b>Action</b>
December 2014	Establish CSAIL's ESMS at the corporate and project level (action #1)
December 2014	CSAIL Board's approval and publication of an Environmental and Social Policy (action #2)
December 2014	Appoint a dedicated health, safety, and social officer and establish a CSAIL environmental, health, safety, and social unit (action #3)
December 2014	Establish CSAIL's HR policy for employees and contractor workers, along with policy standards for worker accommodations, a worker's GM, and a health and safety procedures manual (action #4)
December 2014	Security personnel conduct standards (action #7)

62. While the IFC's ESRS did consider the gaps and risks related to workers' grievance mechanism and OHS procedures, among others, IFC did not include an in-depth analysis of Pakistan's legal and labor context. Nor did it assess possible risks specifically related to interference with or impediments to freedom of association and employment terms at CSAIL-financed projects.
63. CAO did not find evidence that IFC conducted a substantial assessment of CTGC's labor policies, practices, procedures and their implementation to determine their alignment with PS2-requirements.<sup>70</sup> Such an evaluation was particularly necessary because CSAIL was expected to establish its Environmental and Social Management System (ESMS) in alignment with CTGC's system. The ESAP for IFC's investment in CSAIL therefore lacked measures, based on the Pakistan context, to address shortcomings related to freedom of association or employment terms to meet PS2 requirements.
64. In May 2014, IFC approved the equity investment in CSAIL and in November 2014, it legally committed to the investment.
65. By September 2014, CSAIL had appointed an E&S manager, and in December 2014, CSAIL developed its ESMS and an E&S framework, which included a contractor management plan aimed at ensuring all projects and operations adhered to E&S standards. The plan places the responsibility for worker accommodations at CSAIL-financed projects with the EPC contractor.<sup>71</sup>
66. In January 2015, CSAIL updated its standard ESIA.<sup>72</sup> This update provided guidance to all

<sup>70</sup>IFC noted that the parent company (CTGI) had human resource management policy and practice which CSAIL would follow and that the ultimate parent company (CTGC) was experienced in the development of energy projects

<sup>71</sup> IFC Equity ESRS, E&S Mitigation Measures. Available here: <https://officecao.org/4o6VttY>

<sup>72</sup> The initial ESIA was prepared by a consortium of international and Pakistani consultants in September 2009, based on an original project design consisting of a concrete dam (initially proposed at a height of 91m) and an underground powerhouse. This Karot ESIA was submitted to, and approved by, the relevant environmental authorities in Pakistan in 2010 to 2011. After CSAIL took over the Karot project, the project's design was reviewed and CSAIL commissioned, at its own expense, a specialized ES consultancy to update the ESIA to reflect the final design. Available here: <https://officecao.org/48RKTTe>.

contractors, particularly concerning accommodation and OHS risks. However, it did not encompass critical risks related to freedom of association and terms of employment in Pakistan, nor did it include guidance on nondiscrimination measures.

### 3.2.3 CAO Analysis of IFC Due Diligence of CSAIL

67. IFC categorized the CSAIL investment E&S risk as category A (the highest level) because of the potential for significant adverse risks and impacts that are diverse, irreversible, and unprecedented. Given the types of energy infrastructure projects CSAIL sought to develop, CAO finds that IFC correctly categorized the E&S risk of its CSAIL investment according to the Sustainability Policy (para. 40).
68. **However, CAO finds that IFC's pre-investment ESDD did not meet the standard set out in paragraph 26 of the Sustainability Policy that such diligence be commensurate with the nature, scale, and stage of the business activity or with the level of risk and potential impacts as they relate to labor issues under PS2**, for the following reasons:
- IFC did not perform an in-depth review of the national context pertaining to PS 2 (Labor and Working Conditions) despite pertinent and credible indications of significant PS2-related risks in Pakistan.
  - IFC did not adequately assess the PS2-related policies or practices of CSAIL's parent companies, which the client was expected to rely upon until pending establishment of its own E&S framework.
  - IFC did not adequately assess CSAIL's parent companies' implementation experience with PS2-related issues on other projects, an important indicator of likely performance at Karot.
69. CAO found no evidence that IFC's due diligence included an adequate review of CSAIL's E&S assessment with respect to known PS2-related risks and issues in Pakistan—specifically those concerning terms of employment and freedom of association.<sup>73</sup> ITUC's 2008-2013 Global Rights Index documented severe restrictions on rights to form and join unions and collectively bargain, yet these were not reflected in IFC's environmental and social due diligence (ESDD).<sup>74,75</sup>
70. **CAO also finds that IFC's ESDD was insufficient to meet requirements under the IFC Sustainability Policy (para. 22), that IFC only finance investment activities expected to meet the requirements of the Performance Standards within a reasonable period of time.** IFC noted that CSAIL was a newly-established entity and did not yet have an E&S management system in place. In the interim, CSAIL would rely on the policies and practices of its parent companies to manage PS2 issues. IFC's documentation provided only summary statements that policies and practices existed, with no supporting analysis of their alignment with PS2. Given CTGI's then limited experience in project development outside China, CSAIL's recent formation

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<sup>73</sup> Notably, ILO's 2014 Pakistan Decent Work Country Profile and the 2013 and 2014 International Trade Union Confederation (ITUC) Global Rights Index highlighted significant labor challenges in the country, related to minimum wage, excessive working hours, OHS and freedom of association. Later the ILO's 2016 Pakistan Decent Work Country Program: 2016-2020 noted these challenges as ongoing. ITUC and ILOs documents available here: <https://officecao.org/4ntWNYw>, <https://officecao.org/469V1Ft> and: <https://officecao.org/44HhGYI>.

<sup>74</sup> ITUC 2008, Internationally Recognised Core Labour Standards in Pakistan Report. Available here: <https://officecao.org/4gvVbKE>.

<sup>75</sup> The 2013 ITUC report on Countries at Risk Violations of Trade Union Rights included examples of freedom of association challenges in Pakistan including attacks, disciplinary action, and arrests of union leaders and workers when negotiating over wages, benefits and job security. Available here: <https://officecao.org/4mvcgWx>.

and limited experience with IFC Performance Standards, and Pakistan's labor risks, IFC should have given PS2 issues more attention.<sup>76</sup> With the information IFC had at the time, it lacked sufficient evidence to expect the client to effectively implement PS2 as required by the Sustainability Policy (para. 22).

71. IFC's shortcomings in ESDD affected the ESAP agreed with CSAIL. While IFC's ESDD documentation covered certain broad aspects of working conditions, including references to a centralized ESMS for CSAIL, KPCL, and TGDC to monitor accommodations, establishing a GM, and establishing an OHS procedures manual, the project ESAP did not specify actions related to employment terms and freedom of association.<sup>77</sup> The absence of targeted ESAP actions would hinder IFC's ability to align CSAIL's policies with PS2 during supervision.

### 3.2.4 IFC E&S Due Diligence of Loan to KPCL<sup>78</sup>

72. In late 2014 and early 2015, IFC conducted ESDD for a loan to KPCL to construct and operate the Karot hydropower facility on the Jhelum River. In January 2015, an E&S consulting firm developed an ESIA on behalf of KPCL for the Project.<sup>79</sup> This impact assessment included labor issues related to workers' accommodations, OHS impacts, use of on-site security forces, and community impact from an influx of workers to construct and operate the plant. However, the labor analysis of the ESIA did not include Pakistan's known labor risks regarding freedom of association, and terms of employment. At the same time, the ILO reported that collective bargaining rights were limited,<sup>80</sup> and the ITUC Global Rights Index rated Pakistan unfavorably for systematic violations of workers' rights.<sup>81</sup> Later, the ILO's Decent Work Country Program (2016-20) reinforced significant challenges in Pakistan, including low unionization levels, weak compliance with relevant laws, poor working conditions, and a weak labor inspection regime.<sup>82</sup>
73. IFC disclosed the project's ESRS and ESAP in August 2015, stating that TGDC was the EPC contractor. IFC also noted that CSAIL ESAP items on developing the HR policies and plans in accordance with Pakistani law and IFC's Performance Standards were still ongoing, and that KPCL was expected to implement these policies at the project site. At the time of ESRS disclosure, CSAIL was applying the CTGI HR policy to KPCL's employees involved in preconstruction

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<sup>76</sup> By January 2014, Three Gorges First Wind Farm Pakistan (PVT) Ltd or "TGF" was the only CSAIL project currently under construction in Pakistan, with a total of 660 staff on site. ESRS, available here: <https://officecao.org/43C0YcO>. Prior to 2014, CTGC had acquired some clean energy projects in Europe and Brazil and led the construction work of Murum Hydropower project in Malaysia.

<sup>77</sup> ESRS, E&S Mitigation Measures, available here: <https://officecao.org/4o6VttY>. As per the ESAP, PS2 actions were expected to be implemented post IFC legal commitment to the CSAIL investment.

<sup>78</sup> IFC ESRS, 2015. Project no. 36008. Available at <https://bit.ly/3rkE4Sq>.

<sup>79</sup> ESIA for the Karot Hydropower Project: <https://officecao.org/4edyB8p>. An initial ESIA was prepared by a consortium of international and Pakistani consultants in September 2009, based on an original project design. This Karot ESIA was submitted to, and approved by, the relevant environmental authorities in Pakistan in 2010 to 2011. After CSAIL took over the Karot project, the project's design was reviewed and CSAIL commissioned, at its own expense, a specialized E&S consultancy to update the ESIA to reflect the final design. Available here: <https://officecao.org/48RKTTe>.

<sup>80</sup> 2014 ILO's Pakistan Decent Work Country Profile, available at: <https://officecao.org/474fDhh>.

<sup>81</sup> According to International Trade Union Confederation (ITUC) Pakistan is rated as 4, which is defined as "Workers in countries with the rating of 4 have reported systematic violations. The government and/or companies are engaged in serious efforts to crush the collective voice of workers putting fundamental rights under continuous threat," p. 69. Available here: <https://officecao.org/3ZVpJyt>.

<sup>82</sup> Pakistan Decent Work Country Programme III (2016-2020) is a joint effort of the Government of Pakistan, the Employers' Federation of Pakistan (EFP) and the Pakistan Workers' Federation (PWF) with support from the ILO Country Office Islamabad. Report published September 2016, <https://officecao.org/3RdpOsl>.

activities for the project.<sup>83</sup>

74. The ESAP for the IFC loan to KPCL required the client to take the following actions related to meeting PS2 requirements.<sup>84</sup>

<b>Anticipated completion date</b>	<b>Action</b>
August 2016	KPCL to review and confirm that the Karot EPC Contractor’s Construction E&S Management Plan (CESMP) is consistent with the requirements of the Karot Project ESIA, ESMP, and the CSAIL E&S Management System (ESMS) (action #1)
July 2016	KPCL to appoint owner’s E&S advisors to support KPCL and its EPC contractor in planning and implementing actions to meet IFC Performance Standards and international standards (action #2)
July 2016	KPCL to require its EPC contractor and subcontractors to incorporate into all labor contracts a provision for appropriate dispute resolution to address potential issues between national labor regulations and local customary practice (action #3)

75. In January 2016, KPCL developed the project’s HR Policy, and TGDC developed the Construction ESMP as well as a contractor management plan, OHS plan, workers’ accommodation plan, HR Policy, grievance mechanism, and site security plan. KPCL’s HR Policy outlined workers' rights, including freedom of association, nondiscrimination, fair treatment of migrants, proper management of accommodations, avoidance of child or forced labor, third-party worker management, and health and safety measures. In April 2016, IFC reported that the KPCL HR policy and employment contract template was satisfactory and observed that the drafts of the ESMPs were of substandard quality. In response, both CSAIL and KPCL committed to applying additional resources.
76. Despite KPCL and TGDC developing HR and ESMPs, IFC due diligence documentation in February and March 2016 indicated gaps and concerns about TGDC’s approach as the EPC contractor. Following an April 2016 IFC visit to the project site, where 800 workers were already employed and engaged in preparatory works, IFC noted that while some ESMPs were deemed adequate, serious OHS issues remained, including delays in OHS training, language issues preventing E&S officers from effectively supervising Pakistani workers on OHS issues, and the need to improve PPE use. IFC recommended that the EPC emphasize Chinese-Pakistani communication between KPCL and EPC, enforce PPE use, complete the translation of E&S and OHS management plans, accelerate the OHS training program, and hire and/or train additional Pakistani E&S (especially OHS) officers.<sup>85</sup>
77. The IFC Board of Executive Directors approved the investment in May 2016, and in November 2016 IFC legally committed to the Karot project loan.

<sup>83</sup> IFC ESRS (2015) reported 50 Chinese and Pakistani KPCL employees. Available at <https://bit.ly/3rkE4Sq>.

<sup>84</sup> IFC ESRS, ESAP. Available here: <https://officecao.org/4kV0HYq>.

<sup>85</sup> At that time, there were 8 - 10 Chinese and 2 Pakistani staff supervising OHS at the site.

### 3.2.5 CAO Analysis of IFC Due Diligence for KPCL Loan

78. The Karot Hydropower Project was one of the largest of its kind in Pakistan, and **CAO finds that IFC correctly categorized the E&S risk of its investment as high (Category A), according to the Sustainability Policy (para. 40). However, for the reasons outlined below, CAO finds that IFC’s pre-investment ESDD was not commensurate with the nature, scale, and stage of the business activity or with the level of risk and impacts (Sustainability Policy para. 26).** Specifically, CAO’s analysis below identifies three overarching deficiencies: (1) IFC did not conduct a substantive review of Pakistan’s labor context despite known PS2 risks; (2) IFC acknowledged that management of the Project’s labor aspects would rely on CSAIL’s and CTGI’s management systems, however IFC did not verify their adequacy for the project’s scale and context; and 3) IFC’s ESAP for the KPCL loan omitted targeted measures to address high-risk labor issues such as freedom of association and terms of employment.
79. As with IFC’s earlier CSAIL investment, there is no evidence that IFC conducted a substantial review of the Pakistan country context regarding terms of employment and freedom of association. These risks were neither presented in the ESIA nor evaluated as substantial risks in the ESRS,<sup>86</sup> despite credible sources (e.g., ILO and IUTC) documenting systemic labor rights restrictions. The significance of this omission is that IFC’s ESDD was not fully informed of the nature and severity of the labor risks in Pakistan, nor of the practical challenges its client would encounter in applying PS2 requirements in that context. This gap in understanding was consequential because given that the Karot project’s labor management systems were derived from CSAIL’s ESMS and CTGI’s HR policies, which were both developed and managed by entities based outside Pakistan with limited prior experience in the country. As a result, any shortcomings in adapting these systems to Pakistan’s legal and labor context would directly affect KPCL’s ability to meet PS2 requirements.
80. As part of its supervision of the CSAIL investment and during the ESDD for the KPCL loan, IFC reviewed and assessed the labor and working conditions in practice during an April 2016 site visit. It identified various issues, risks, and gaps related to PS2, including OHS risks such as the use of PPE and safety equipment as well as insufficient OHS training.<sup>87</sup> IFC also had concerns regarding the management of the EPC contractor and understaffing of OHS supervisors. It recommended measures to improve communication between KPCL and EPC, strengthen E&S and OHS staff capacity, and enforce PPE use. IFC’s findings indicated that there were labor gaps in practice, raising questions about whether the ESAP’s requirements could realistically be met without strengthening CSAIL’s and KPCL’s systems prior to the loan commitment.
81. Given the project’s need for a large construction workforce comprising local and international workers, both IFC’s E&S Review Summary and the 2015 ESIA developed by the lenders’ expert consultant in 2015 included the need for a Worker Accommodation Plan (WAP) in line with the requirements provided by the IFC and European Bank for Reconstruction and Development (EBRD) Accommodation Guidance Note (2009).<sup>88</sup> The plan would need to address sleeping, sanitary, medical, and social facilities, factoring in the different requirements for local and

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<sup>86</sup> The PS1 (para 11) requires that the risks and impacts identification process will be based on recent environmental and social baseline data at an appropriate level of detail and must consider all relevant environmental and social risks and impacts of the project, including issues identified in PS2-PS8.

<sup>87</sup> At the time, only 40 percent of the 800 workers had received OHS or job training other than induction training.

<sup>88</sup> IFC (International Finance Corporation) and EBRD (European Bank for Reconstruction and Development). *Workers’ Accommodation: Processes and Standards; A Guidance Note by IFC and the EBRD.* (IFC and EBRD, 2009). <https://officecao.org/40xqOwD>.

expatriate workers. However, CAO's review of project documents found that neither the ESIA, nor the ESRS, nor the subsequent WAP developed by the client's EPC contractor included a specific assessment of discrimination risks between local and international workers at the existing working site. The ESIA did state that the accommodations should consider the different requirements for local and expatriate workers but does not elaborate. Similarly, the project ESAP focused on the overall Contractor Management Plan and did not include any specific actions related to workers' accommodation or the WAP to ensure nondiscriminatory.

82. At the time IFC approved the investment in May 2016, at least 600 Pakistani and 200 Chinese workers were employed at the site conducting preconstruction activities, including building roads, demolishing former residences and public buildings, excavating building sites, laying foundations for and constructing accommodations and office buildings, and preparing the diversion tunnel for full-scale drilling and blasting.<sup>89</sup> Despite the scale and diversity of the workforce, CAO found no evidence that IFC reviewed whether the workers' accommodations were constructed in a manner that complied with IFC standards. CAO also found no indication that IFC verified whether Pakistani and non-Pakistani workers were employed on equivalent terms or provided with accommodations and related services (such as transportation and food) in a manner consistent with the PS2 principles of nondiscrimination and equal opportunity.<sup>90</sup> This oversight meant that IFC lacked assurance prior to commitment that the client's arrangements for worker housing and associated services would, in practice, meet the PS2 requirements. The omission was particularly consequential given the expected peak workforce of 3,500 workers and CSAIL's plan to replicate similar labor arrangements in multiple planned energy projects in Pakistan.<sup>91</sup> Therefore, any shortcomings at the Karot project site could be repeated at scale, exposing IFC to additional E&S risk through its equity shareholding in CSAIL. Section 3.3 describes IFC's actions during its supervision of KPCL.
83. As described in Section 3.2.4 above, IFC identified multiple issues and risks during due diligence related to PS2 compliance by the client and its EPC contractor. However, in terms of the labor issues raised in this compliance case, CAO finds insufficient evidence to demonstrate that IFC engaged with KPCL to assess and address PS2 compliance regarding workers' accommodations, nondiscrimination and equal opportunity, freedom of association, and terms of employment. Underscoring this apparent lack of attention to these issues, the ESAP does not include direct measures to address them, and the updated 2015 ESIA and ESMP do not mention them.<sup>92</sup> These omissions led to IFC entering into the loan agreement without a targeted plan to address the most salient labor risks in Pakistan, reducing its ability to ensure that the client's systems and contractor arrangements would meet PS2 requirements in practice.
84. The recent establishment of both CSAIL and KPCL meant that, at the time of preconstruction, neither entity had fully developed or implemented project-specific ESMPs to govern site activity

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<sup>89</sup> CAO notes that the extensive workforce and the preparation of the diversion tunnel works are commonly classified as part of main construction activities according to the IFC Hydroelectric Power: A Guide for Developers and Investors, Available here: <https://officecao.org/3K9IY2k>.

<sup>90</sup> PS2, paragraphs 15 and 16. Services which are required to be provided to workers are laid out in PS2, para. 12 and Guidance Note 2 paras. GN30-31. <https://officecao.org/4kfefgg>.

<sup>91</sup> IFC, ESRS, 2015. Project no. 36008. Available at <https://bit.ly/3rkE4Sq>. During project construction, the workforce peaked at approximately 5,500 (including over 4,400 Pakistani workers).

<sup>92</sup> An initial ESIA was prepared in September 2009, based on an original project design. This Karot ESIA was approved by the relevant environmental authorities in Pakistan in 2010 to 2011. After CSAIL took over the Karot project, CSAIL commissioned an ES consultancy to update the ESIA to reflect the final design. Available here: <https://officecao.org/48RKTTe>.

and labor conditions. This created gaps in the policies and procedures needed to meet PS2 requirements, including reliance on CSAIL’s corporate policies, themselves based on CTGI’s HR framework, which had not been adapted to Pakistan’s difficult labor context. In January 2016, during preconstruction, KPCL and TGDC had just established ESMPs to govern site activity and labor conditions. However, IFC’s supervision noted continuous gaps at that time. In April 2016, when there were reportedly 800 on-site workers, IFC reviewed KPCL’s HR policy and ESMPs, concluding that the plans had improved significantly but that it would need to follow up on the implementation of the plans. Both CSAIL and KPCL committed to applying additional resources to the issue.

85. Evidence is limited regarding how IFC assessed TGDC's capacity and competence to oversee the works. IFC noted the EPC contractor’s lack of familiarity with the CSAIL frameworks; the ESIA; and the environmental, health and safety (EHS) guidelines; and questioned its capacity to develop a quality construction ESMP in time for construction. However, CAO found no evidence that IFC engaged with KPCL to ensure the contractor had an ESMS in place that met PS2 requirements (para. 24). It appears that IFC did not do so despite documenting delays in the delivery of Karot’s ESMPs prior to the start construction activities and a lack of technical capacity when on-site work began.<sup>93</sup> Without verifying TGDC’s readiness and competence, IFC lacked assurance that the contractor could implement the ESAP actions effectively.
86. In addition, between IFC’s due diligence of its CSAIL equity investment and its loan to KPCL, CSAIL developed its E&S policies and procedures, and KPCL updated its ESIA in January 2015. The updated ESIA provided guidance to all contractors, particularly concerning accommodations and OHS risks.<sup>94</sup>
87. Nevertheless, the absence of both a detailed PS2 gap analysis for the equity investment and a contextual risk analysis of labor issues in Pakistan for either investment prevented IFC from creating a comprehensive ESAP for the KPCL loan that addressed freedom of association and employment terms. The IFC Board of Executive Directors approved the investment in May 2016 based on IFC due diligence documentation that did not include the PS2 risks or concerns regarding the ability of the EPC contractor, KPCL, or CSAIL to manage the construction company. This omission had significant implications for IFC’s supervision of the Karot project. As covered in more detail in section 3.3, once IFC’s direct supervision of the KCPL loan started in April 2017, IFC reported that the completion of ESAP actions was overdue. Action 1 of the ESAP was reported as completed eight months after the original deadline, and actions 2 and 3 remained ongoing and received additional recommendations by the Lenders’ IESC.

### **3.3 CAO’s Analysis of IFC’s Supervision of the KPCL Loan**

88. The following analysis is structured around the five issues raised by the complainants. Each section summarizes the allegation, IFC’s relevant E&S policy requirements, and IFC’s actions during supervision,<sup>95</sup> followed by a description of CAO’s compliance analysis and findings, and well as any findings of related Harm to the complainants.

#### **3.3.1 Relevant Requirements**

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<sup>93</sup> The Karot’s E&S management plans for constructions would be designed by CSAIL, KPCL and TGDC.

<sup>94</sup> Updated ESIA for the Karot Hydropower Project: <https://officecao.org/4edyB8p>.

<sup>95</sup> Overarching IFC policy requirements for its pre-investment review and supervision are summarized in section 3.1.

89. IFC’s supervision activities are guided by its 2012 Policy on Environmental and Social Sustainability and Performance Standards (the Sustainability Framework), which mandates that IFC’s investments are conducted with a commitment to “do no harm” to people and the environment (para. 9). Once a project receives Board approval, IFC conducts thorough supervision for the life of the investment to ensure that financed business activities comply with the relevant Performance Standards. The Sustainability Policy requires IFC to work with clients to rectify any noncompliance issues. If the client fails to reestablish compliance, IFC may exercise its rights and remedies as appropriate (paras. 7, 24, and 45). Additionally, IFC’s 2013 Environmental and Social Review Procedures provide a framework to evaluate the effectiveness of clients’ ESMS, ensuring they meet Performance Standards throughout the investment lifecycle (para. 26).

### **3.3.2 IFC Supervision Structure for the Karot Project**

90. The Karot project lenders—IFC, the Export-Import Bank of China, China Development Bank, and Silk Road Fund (“the lenders”) appointed a consulting firm to act as the Lenders’ IESC, performing E&S construction monitoring services for the Karot project.
91. The lenders required the IESC to monitor E&S issues during construction on a quarterly basis for the first year and then three times a year for the remainder of the construction phase. Eighteen monitoring reports were prepared from 2017 to 2024, with the Lenders’ IESC visits less frequent since June 2022, partly because of security and access constraints, and as agreed with the lenders and KPCL.
92. From 2017 to 2024, IFC progressively enhanced supervision of the hydropower plant’s large-scale construction works. IFC’s supervision activities specifically related to labor and working conditions included:
- Performing regular E&S monitoring and reporting, including on PS2 issues concerning the provision of services for workers through the Lenders’ IESC and IFC site supervision.
  - Hiring two external consultants to conduct labor assessments on PS2 issues in 2019 and 2021 (IFC Labor Consultant A in 2019 and again in 2021 and IFC Labor Consultant B in 2021).<sup>96</sup>
  - Requesting the client and its EPC contractor conduct internal labor audits and assessments, including an evaluation of discrimination in the workplace in 2020.
  - Updating and revising the project ESAP through Supplemental Corrective Action Plans (SCAPs) in July 2020 (first SCAP) and March 2021 (second SCAP) for KPCL to implement.<sup>97</sup>

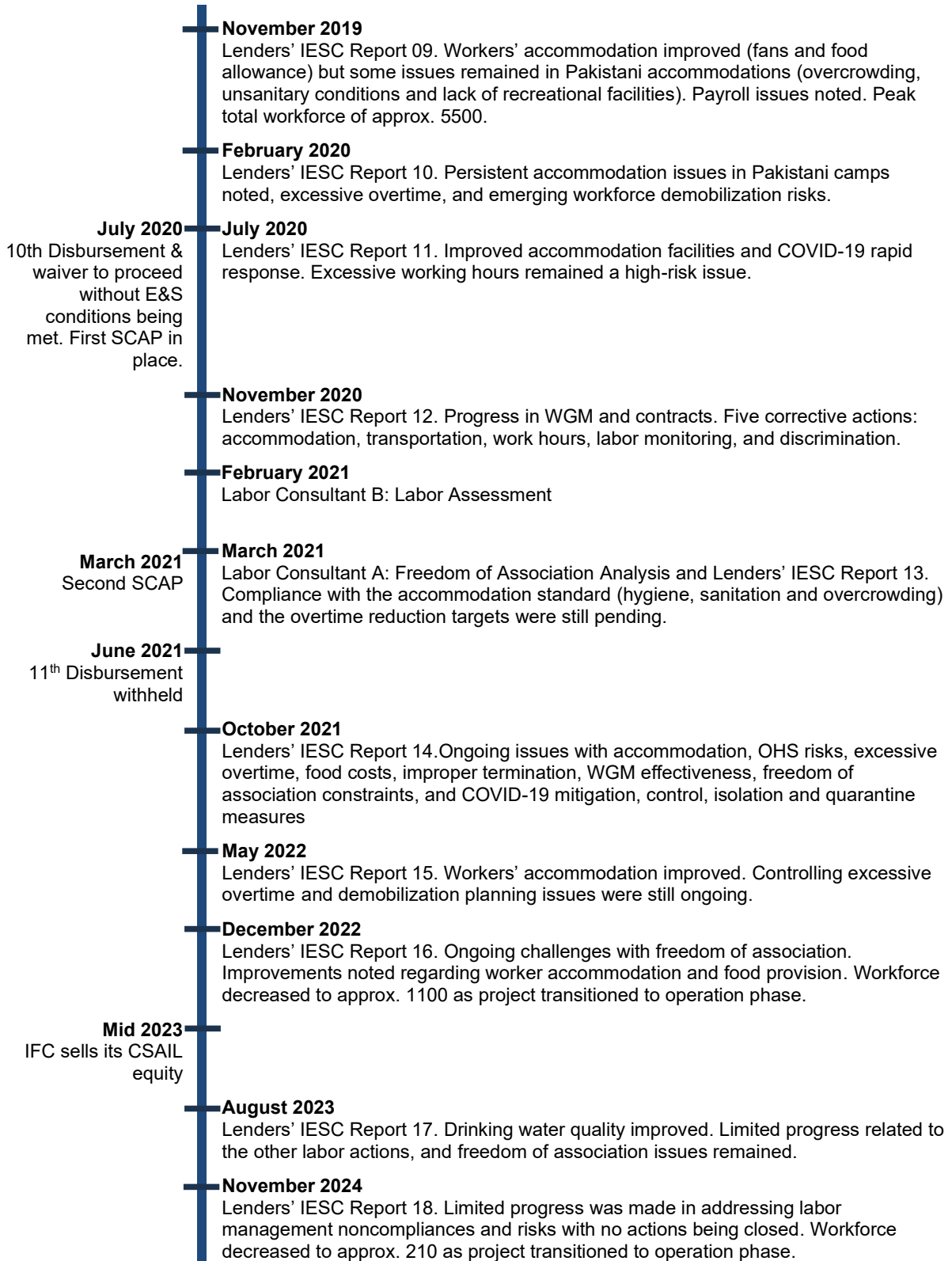
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<sup>96</sup> IFC Labor Consultant A completed a labor assessment report in February 2019, and a freedom of association and collective bargaining report in March 2021. IFC Labor Consultant B completed a second labor assessment in February 2021.

<sup>97</sup> The SCAP was attached to the independent engineer’s statement as a disbursement condition.

## Timeline: Summary of IFC Supervision

<b>December 2016</b> 1st Disbursement	
	<b>April 2017</b> Lenders' IESC Report 01. Identified differences in accommodations, OHS deficiencies, PPE gaps, employment terms issues, and WGM deficiencies (e.g., lack of grievance log maintenance).
	<b>July 2017</b> Lenders' IESC Report 02. Immediate need to address OHS, access to water, overcrowded and unhygienic accommodation, transportation and payroll issues
<b>August 2017</b> 2nd Disbursement	
	<b>September 2017</b> Lenders' IESC Report 03. OHS issues remained a major concern, and WGM and overtime payments still required action. Improvements in accommodations (cleanliness, cooking facilities, grievance boxes, fans).
	<b>February 2018</b> Lenders' IESC Report 04. Significant OHS issues remained and challenges of WGM roll-out to all sub-contractors. Ongoing workers' accommodations concerns, and discrepancies in standards between Pakistani and non-Pakistani accommodation.
<b>March 2018</b> 3rd Disbursement	
	<b>May 2018</b> Lenders' IESC Report 05. Recurring high-risk issues in contracting, accommodations, PPE use, and salary calculations. Excessive overtime and food charges noted.
<b>May 2018</b> 4th Disbursement	
	<b>July 2018</b> Lenders' IESC Report 06. Persistent issues with overtime payments, food charges, accommodations, and PPE gaps.
<b>July 2018</b> 5th Disbursement	
	<b>October 2018</b> Lenders' IESC Report 06. Persistent issues with overtime payments, food charges, accommodations, and PPE gaps.
<b>November 2018</b> 6th Disbursement	
	<b>December 2018</b> Lenders' IESC Report 07. OHS improvements noted, but concerns related to overtime payments, food charges, accommodation persisted.
	<b>January 2019</b> IFC informed of freedom of association issues at Karot project site
	<b>February 2019</b> Labor Consultant A: Labor Assessment
<b>March 2019</b> 7th Disbursement	
	<b>July 2019</b> Lenders' IESC Report 08. Employment termination and retrenchment issues noted. Ongoing concerns with salary deductions and accommodation (overcrowding, and ventilation). OHS improvements noted.
<b>July 2019</b> 8th Disbursement	
<b>September 2019</b> 9th Disbursement	



### 3.3.3 Supervision Related to Alleged Discrimination Against Pakistani Workers

#### Description of the Issue

93. The Karot Hydro-02 complaint alleged that discriminatory practices favored non-Pakistani workers over local Pakistani workers, particularly concerning working conditions, including access to drinking water, accommodations, and transportation facilities. The obligations of IFC clients to meet E&S standards regarding these issues are covered in PS2: Labor and Working Conditions.

#### Relevant IFC Requirements

94. During supervision, IFC is responsible for reviewing the performance of its clients against the relevant Performance Standards and help them address any shortcomings.<sup>98</sup> PS2 requires fair working conditions, nondiscrimination, and equal opportunity in the workplace. It mandates dignified treatment, fair wages, and safe conditions for workers. On-site accommodations must meet safety, hygiene, and comfort standards. Employment decisions should be based on merit, free from discrimination against a range of characteristics. The client's implementation of PS2 is supported by the IFC's Guidance Note 2 (GN2), which emphasizes the importance of providing nondiscriminatory services that meet national and international standards (para. 31).<sup>99</sup>
95. The provision of basic living essentials such as accommodation, transportation, and food, should meet international quality standards, as described in the 2006 IFC Good Practice Note: Non-Discrimination and Equal Opportunity, following PS2 (para. 12) and the 2009 IFC-EBRD Accommodation Guidance Note on workers' accommodations.<sup>100</sup>
96. Additionally, PS2 (paras. 15-17) mandates nondiscrimination and equal opportunity in the workplace. This commitment to equality fosters an inclusive work environment. According to Guidance Notes 2 (para. 41), discrimination in employment is any distinction, exclusion, or preference concerning working conditions. Discrimination is defined in PS2 as any distinction, exclusion, or preference made based on gender, race, nationality, ethnic, social and indigenous origin, religion or belief, disability, age, or sexual orientation.<sup>101</sup>
97. Lastly, for the use of third-party contractors for IFC-financed projects, PS2 (para. 24-26) highlights the responsibility of companies to take commercially reasonable efforts to ensure that third-party contractors who supply labor adhere to the same labor policies and procedures as the primary employer.

#### IFC Actions

98. In August 2015, IFC published an ESRS of its pre-investment review of the Karot project loan, asserting that the design of accommodations for "main and satellite" workers would meet the guidelines provided in "Workers' Accommodation: Processes and Standards" developed jointly by IFC and EBRD. KPCL was expected to inspect the workers' accommodation regularly throughout the period of IFC's investment with monitoring results reported to KPCL management and the EPC contractor. Any shortcomings were required to be remedied within established timeframes.<sup>102</sup>

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<sup>98</sup> Sustainability Policy, para. 45.

<sup>99</sup> IFC, Guidance Notes to Performance Standards. Available here: <https://officecao.org/3XSHn4V>.

<sup>100</sup> IFC, 2009, Workers' Accommodation. Available at: <https://officecao.org/40xqOwD>.

<sup>101</sup> IFC PS2, para. 15 and footnote 9.

<sup>102</sup> IFC ESRS, 2015. Project no. 36008. Available at <https://bit.ly/3rkE4Sq>.

99. In May 2016, during preparation for the main construction phase, the client had 800 employees (600 Pakistani and 200 Chinese), living and working at the site,<sup>103</sup> with the worker's accommodations organized by nationality. KPCL estimated there were 3,500 employees (3,000 local staff and 500 Chinese) at the peak of construction,<sup>104</sup> all of whom received accommodations and associated services.<sup>105</sup>
100. The project's ESIA mandated a Worker Accommodation Plan (WAP) for the plant during the construction and operations phases. The plan was required to adhere to the 2009 IFC-EBRD guidance on worker's accommodations, addressing aspects such as sleeping areas, sanitary and toilet facilities, cooking and laundry facilities, canteen and leisure spaces, and medical facilities.<sup>106</sup> Workers could not be charged for accommodations and related services, and the facilities had to consider the different requirements of local and expatriate workers. The ESIA also noted that reasonable and nondiscriminatory rules regarding accommodations should be included in the WAP, based on consultation with workers. The project's ESIA required the WAP to include the monitoring of the conditions of accommodations on a quarterly basis using the checklist in IFC's guidance note for PS2 until two reporting periods showed no corrective actions were needed, after which monitoring could be conducted on a semiannual basis.
101. TGDC subsequently developed a WAP applied to all workers, which IFC reviewed in March 2016. There was no discussion or analysis of accommodation-related nondiscrimination and equal opportunity.
102. In 2017, during IFC supervision, the Lenders' IESC reported that improving accommodations, especially for the majority of Pakistani workers, was one of the project's key social challenges. At Pakistani accommodation camps, supervision documentation noted issues of overcrowding with 10 people per room, outdoor cooking areas adjacent to the toilet facilities, and unclean and insufficient toilet facilities. Inadequate cooling and recreational facilities was also identified, and supervision records also noted Pakistani workers' allegations of a lack of or inadequate transportation from their accommodations to the construction site compared with non-Pakistani workers, who were provided locational transportation. In addition, the Lenders' IESC reported that overtime and bonus pay was higher among non-Pakistani workers' than Pakistani workers and that non-Pakistani workers' food and PPE was provided free of charge. During random interviews conducted by the Lenders' IESC, poor-quality drinking water emerged as another significant grievance among workers.
103. In late 2017, the monitoring report by the Lenders' IESC noted that KPCL had undertaken an HR and worker accommodations audit, concluding that PS2 had improved because of the corrective actions that the EPC contractor adopted, including verifying that all workers had contracts and pay slips, and that PS2 training had been provided to HR and worker accommodations staff. However, the Lenders' IESC still recorded differences in the provision and condition of workers' accommodations and significant disparity in food costs. The Lenders' IESC recommended that KPCL undertake a labor audit of its workforce and facilities to better understand the differences between Pakistani and non-Pakistani workers and address shortcomings identified by the HR

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<sup>103</sup> The workers were preparing for the main construction to begin in summer of 2016, by demolishing former residences and public buildings, building roads, excavating building sites, laying foundations for and erecting accommodations and office buildings, preparing the diversion tunnel for full-scale drilling and blasting.

<sup>104</sup> Updated ESIA, section 16.2.5.6. During project construction, the workforce peaked at approximately 5,500 (including over 4400 Pakistani workers).

<sup>105</sup> In 2020-21, there was a sharp reduction in the total workforce due to the COVID-19 pandemic.

<sup>106</sup> Other aspects included standards for nutrition and food safety, and leisure, social, and telecommunication facilities.

audit, including the limited information available about the practices of EPC contractors and subcontractors.

104. In 2018 and 2019, the supervision reports of the Lenders' IESC continued to record discernible differences in the provision and condition of accommodations for Pakistani and non-Pakistani workers, particularly regarding to overcrowding of workers per room, access to free washing machines, and insufficient ventilation provisions, specifically noting a provision of fans versus air conditioning for workers at the same seniority level but different nationality. A disparity in food costs also reportedly remained.<sup>107</sup> By the end of 2019, the Lenders' IESC reported that all workers were being provided with a food allowance, and that rooms had at least one fan for every two people. However, IFC's supervision documentation does not address whether the difference in food cost or different provision of room ventilation services for Pakistani and non-Pakistani workers of similar skill, seniority and work had been remedied. Lenders' IESC monitoring reports continued to highlight grievances about transport provision and recommended that all workers receive free transportation from the construction site to their accommodation campsites. In 2019, the workforce peaked at approximately 5,500 (2,000 above expectations prior to project construction).
105. In December 2019, a labor assessment report by a third-party labor consultant hired by IFC (IFC Labor Consultant A, 2019) noted evidence of discrimination against Pakistani workers compared with their non-Pakistani counterparts and rated the risk level as medium. Examples included the room ventilation provision to non-Pakistani workers of air conditioning units versus fans, and of transport services to move from site to workers' accommodation versus transportation in trucks where Pakistani workers had to stand. This report also noted inadequate space for all workers to sit and eat lunch, and recorded that over a 100 Pakistani workers who were interviewed reported that their non-Pakistani supervisors treated them harshly. In response, the report recommended that all non-Pakistani supervisors and management receive antidiscrimination and antiharassment training and that KPCL and TGDC clearly communicate zero-tolerance of harsh treatment of workers by supervisors employed by TGDC or its subcontractors.
106. By 2020, some improved services were made available to Pakistani workers. Twenty-two laundry machines were provided to Pakistani accommodations. Additional buses were provided at all construction sections, which addressed some of the concerns of Pakistani workers regarding availability of bus transportation. However, some safety transportation concerns still remained.
107. At the same, IFC became aware of additional issues related to disparities in accommodation conditions. Specifically, non-Pakistani workers' housing had undergone disinfection, while Pakistani workers' accommodation, which had floors affected by moisture and visible fungal growth, were untreated.<sup>108</sup>
108. In July 2020, IFC proceeded with its 10th disbursement to KPCL with a one-time waiver on PS2 issues. IFC granted the waiver in light of the COVID-19 impacts to the project's development and the client agreed to a first Supplemental Corrective Action Plan (first SCAP) for KPCL to address outstanding labor and other E&S issues by August 31, 2020, including workers'

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<sup>107</sup> The Lenders' IESC noted that Pakistanis earning minimum wage, would effectively be earning less than minimum wage which the IESC viewed as a noncompliance. The reports also note that (section IIB of the IFC guidance on worker accommodations) clearly says that charging fees for food should be avoided where workers do not have the choice to eat anywhere else.

<sup>108</sup> By April 2021 it was reported that daily cleaning of camps was being done, and fungal growth had been cleaned.

accommodations.<sup>109</sup>

109. In August 2020, following the external IFC labor consultant's report summarized above, and as part of the first SCAP, KPCL assessed discrimination across the project. This assessment included a survey of workers to evaluate their working conditions and identify any disparities or discriminatory practices in the provision of essential services and amenities. The discrimination assessment report, conducted by the EPC contractor, concluded that differences in accommodations and site facilities stemmed from the cultural, contractual, and climatic needs of non-Pakistani expatriates, while Pakistani workers followed local laws and practices. It also included an action plan to address discrimination concerns through worker consultations, training sessions, and procedures to investigate discrimination claims.
110. The ongoing reports by the Lenders' IESC continued to emphasize the importance of maintaining quality standards in the provision of all workers' accommodation, and working and living conditions were not assessed against the principles of nondiscrimination and equal opportunity, as required by PS2. In September 2020, the Lenders' IESC informed IFC that it considered the first SCAP to be fully implemented.
111. In February 2021, IFC hired another third-party consultant (IFC Labor Consultant B 2021) to conduct a remote labor assessment of working and living conditions at the Karot hydropower plant. The report included a discussion about workers' grievances related to discrimination based on nationality. The Lenders' IESC's report highlighted Pakistani workers' statements about unhygienic and unsuitable accommodations, physical punishment and verbal abuse, and differences in transportation services. The report also noted significant differences between the responses of Pakistani versus non-Pakistani interviewees when questioned about how supervisors reacted to mistakes at the worksite.<sup>110</sup>
112. In March 2021, IFC outlined a second Supplemental Corrective Action Plan (second SCAP) to address the documented ongoing PS2 compliance issues related to workers' accommodation, safe transport, and food and housing costs, some of which remained from the first SCAP. However, IFC did not raise the issue of discrimination in the second SCAP in connection with these matters. Issues related to workers' accommodations were later deemed partially closed, according to the second SCAP verification report.
113. In June 2021, five years after project supervision began, IFC withheld the 11th disbursement to KPCL in part because of persistent labor issues.<sup>111</sup> However, the IFC supervision report for that year still did not address nondiscrimination and equal opportunity standards in workers' accommodation and services. In 2022 and 2023, the Lenders' IESC observed improvements in Pakistani workers' accommodation.
114. By 2024, IFC claimed that the KPCL continued to provide training on nondiscrimination issues for the Karot project, particularly in response to concerns raised about differential treatment of local Pakistani workers compared with non-Pakistani workers.

### **CAO Compliance Analysis**

115. Complainants alleged discrimination against local Pakistani workers regarding the provision of

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<sup>109</sup> The waiver included a SCAP focused on closing the gaps under PS2 related to OHS, workers accommodations, and working conditions.

<sup>110</sup> Out of 42 Pakistani workers interviewed, all reported being verbally abused by supervisors if they made mistakes at work. In contrast, none of the 33 non-Pakistani workers interviewed reported any such incidents.

<sup>111</sup> An anticipated 11<sup>th</sup> disbursement never occurred, and the disbursement period ended in 2022.

services at the project site. CAO's compliance analysis focuses on whether IFC met its obligations to ensure that its client provided accommodations and provision of basic services, like transportation and water in a manner consistent with PS2 provisions and requirements on nondiscrimination and equal opportunity. These provisions are binding on IFC clients and form part of IFC's due diligence and supervision obligations. While quality standards are relevant, the core compliance question for CAO is whether IFC, in line with its Sustainability Policy obligations, adequately identified, assessed, and addressed risks of discriminatory treatment in service provision between Pakistani and non-Pakistani workers, as required under PS2.

116. As noted earlier, disparity in the provision of services to workers was not among the potential PS2 risks IFC identified during project due diligence. IFC's ESDD record shows that IFC did not identify or assess nationality-based discrimination risks among workers or include targeted ESAP measures to address them.<sup>112</sup> This omission meant that IFC entered supervision without a structured plan or baseline for monitoring non-discriminatory provision of accommodation and related services.
117. Nevertheless, IFC did pay increasing attention to the issue during supervision. In particular, IFC included actions for KPCL to address gaps related to workers' accommodation in both the Supplemental Corrective Action Plans agreed in July 2020 and March 2021. The first SCAP required KPCL to conduct an assessment of workplace practices and treatment of both nationalities across the project. IFC also commissioned two labor consultants to assess working conditions and potential discrimination at the plant, in addition to the regular monitoring completed by the Lenders' IESC. However, despite this concerted effort by IFC, PS2 gaps continued to be identified by IFC for several years. Accordingly, IFC's decided to withhold the 11th disbursement in 2021 in part due to persistent labor issues.
118. IFC conducted site visits, reviewed consultant reports, and analyzed third-party evaluations from 2017 to 2020 assessing accommodation conditions for Pakistani and non-Pakistani workers, in accordance with IFC's general supervision commitments.<sup>113</sup> Consultant reports between 2017 and 2022 repeatedly identified disparities in the quality of accommodation services for Pakistani workers versus non-Pakistani workers, particularly related to hygiene, sanitation and overcrowding. Additional differences related to the provision of room ventilation services were identified from 2017 to 2019, noting that non-Pakistani workers had air conditioning units while Pakistani workers did not have sufficient number of fans. The issue was considered closed once fans were sufficiently provided but the differences in ventilation provisions were no longer addressed. Subsequently, in 2020, IFC requested the client to improve accommodation services and conduct an assessment of workplace practices and treatment between nationalities.
119. The discrimination assessment report conducted by the EPC contractor in 2020 also identified differences in service provision, such as water and ventilation services for Pakistani and non-Pakistani workers, but pointed to contractual requirements, climate, and culture as the basis for the difference in treatment between the two groups of workers.<sup>114</sup> The report failed to address the issue raised by the Lenders' IESC of unequal treatment with respect to food costs, access to free laundry machines, and differences in the provision of room ventilation services between Pakistani

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<sup>112</sup> CAO notes that this due diligence omission occurred despite the fact there were already approximately 800 workers at the site during pre-construction by April 2016, prior to IFC's loan approval, with some accommodated on-site.<sup>112</sup>

<sup>113</sup> IFC Sustainability Policy para. 45.

<sup>114</sup> According to IFC guidance "There are some circumstances where employers deliberately discriminate on inappropriate grounds. However, in most circumstances discrimination will not tend to be overt, but rather the result of prevailing cultural, social or economic norms." *IFC Good Practice Note: Non-Discrimination and Equal Opportunity*

workers and non-Pakistani workers of equal seniority, skill, and work responsibilities. Nor did it address disparities in the provision of certain services and charges previously identified in the Lenders' IESC supervision documents, such as access to lunch facilities, laundry services, and food costs.

120. IFC's supervision documentation did not identify the above issues and IFC did not follow up on the cultural and contractual justifications reported by the client. IFC's second SCAP (2021) did not include a specific action to address material disparities based on worker nationality. Supervision during this period often focused on the quality and management of accommodation and related services, instead of assessing whether these services were specifically provided in a manner consistent with the principles of non-discrimination and equal opportunity as required by PS2.
121. CAO notes that the Lenders' IESC reports initially raised concerns about discrimination, both explicitly and implicitly, as a PS2 performance gap regarding worker accommodations. In later years, the consultant continued to monitor accommodation conditions. However, in assessing compliance with Performance Standard 2 (PS2), the review of worker accommodation focused on overall quality and condition, without examining whether differences in accommodation standards might exist between nationalities, nor the potential risk of unequal treatment or discrimination that such disparities could pose.
122. In March 2021, with the second SCAP, IFC linked measures to address the issue of workers' accommodation standards and its risks to workers health and safety to the IFC 11<sup>th</sup> disbursement to KPCL. However, actions to address disparities based on nationality in accommodation and services, while still being noted by consultants, were not included in the second SCAP. However, IFC's anticipated 11<sup>th</sup> disbursement never occurred, and the disbursement period ended in 2022. IFC's documentation does not evidence that the client adequately implemented the workers accommodation measure included in the second SCAP to address the issue of unequal treatment.<sup>115</sup> The Sustainability Policy emphasizes timely compliance with environmental and social requirements (para. 22) and integrating these considerations into decision-making processes (paras. 7 and 45). Based on the timeline outlined above, IFC fell short of its Sustainability Policy obligation.
123. The Sustainability Policy requires IFC to supervise compliance with the Performance Standards, and integrate these E&S considerations into its decision-making processes. Where client performance gaps arise, IFC is required to work with the clients to address shortcomings. In this case, although IFC became aware of potential discriminatory accommodation conditions early in its supervision phase and include a client action to assess this issue in the first SCAP – gaps in this assessment were not identified by IFC. IFC's second SCAP did not include a specific action to address material disparities based on worker nationality. An 11<sup>th</sup> disbursement was withheld partly because of unresolved labor issues. This delay — five years into supervision and project construction — reduced IFC's leverage to secure early corrective action and allowed potentially discriminatory practices to persist. Therefore, while recognizing IFC's efforts to address persistent issues regarding accommodations, **CAO finds that IFC fell short of its obligations under the Sustainability Policy (paras. 7 and 45) to supervise its client to provide fair working conditions, nondiscrimination, and equal opportunity in the workplace in accordance with PS2 (paras. 12 and 15).**

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<sup>115</sup> Relevantly, the second SCAP was being implemented at time when project construction was near completion, and thus, the project was preparing for operation phase.

## CAO Assessment of Related Harm

124. **CAO concludes that there are indications of Harm to complainants related to IFC's noncompliance. Persistent reports of unequal treatment of local Pakistani workers in the provision of accommodations at the hydropower site likely had an adverse social impact on the affected individuals.** Specific concerns about safety, services, and accommodation standards are linked to clear reported differences in the treatment of Pakistani and non-Pakistani workers. Irregularities were consistently identified, including overcrowding of workers per room, differences in room ventilation provisions, higher food costs, and differential treatment related to transportation, laundry services, dining areas, and sanitation/fungal contamination within the facilities.<sup>116</sup> CAO notes that IFC became aware of reports of differences in the quality of the accommodations and in worker contract entitlements in 2017. In 2021, five years after IFC supervision began, IFC Labor Consultant B reported Pakistani worker statements about unhygienic and unsuitable accommodations, and differential treatment between Pakistani and non-Pakistani workers with regard to facilities and transportation – all issues that were reported in earlier IFC supervision documentation.
125. In April 2022, during the CAO mission, KPCL noted that issues around room accommodations were mainly a concern prior to the COVID-19 pandemic, particularly during peak workforce periods, when 8-10 Pakistani workers sometimes shared a room. These conditions improved in time, with the number of occupants per room reduced to four. An internal investigation by TGDC attributed the overcrowded rooms to cultural preferences and mutual consent among Pakistani workers who wanted to share a room. Nonetheless, for a significant period of the project construction phase, the complainants reported and IFC's supervision documentation indicates the accommodations of and services provided to Pakistani workers were inferior to those of non-Pakistani workers.

### 3.3.4 Supervision Related to Freedom of Association

#### Description of the Issue

126. The July 20202 Karot Hydro-03 complaint to CAO submitted by two unions—the BWI and the PFBWW—on behalf of the ALU alleged that KPCL interfered in the establishment and operation of a workers' organization union, specifically the ALU's registration process in 2017. The unions also alleged that ALU members faced fines, threats, false accusations, and employee terminations without justification, and that KPCL had paid inadequate wages. In addition, the complainants alleged that a second union at the Karot project construction site, Social Hydro Labor Union (SHU) was a "yellow union" under KPCL's control. They pointed out that, unlike the ALU, the SHU was quickly registered at the site, potentially as a strategy to interfere with the functioning of the ALU, as Pakistani law prohibits workers from joining more than one union.<sup>117</sup> The complainants also alleged that the IFC client's security practices negatively impacted the trade union's operations

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<sup>116</sup> The issue of overcrowded accommodation was addressed by May 2022, with supervision documentation indicating that each worker had a minimum of four-square meters of space per worker. The issue of laundry services was addressed in February 2020, when supervision documentation recorded that 22 new machines were installed in the Pakistani accommodations.

<sup>117</sup> According to the complainants, the trade union was created by KPCL to interfere with the functioning of the other trade union. According to section 3(a) of the IRA (Industrial Relations Act) no worker shall be entitled to be a member of more than one trade union. ILO defines a yellow union as a union which is established by and/or under the influence and control of an employer. ILO Glossary of Industrial Relations and Related Terms, 1996, pg. 3. Available here: <https://officecao.org/44rhDiC>.

and related workers' rights. Specifically, they claimed that the heavy military security presence at the hydropower plant prevented ALU organizers from accessing the project site at all. For workers, the presence of military personnel created an intimidating atmosphere, interfering with their ability to freely exercise their rights and participate in a collective bargaining process.

### **Relevant IFC Requirements**

127. IFC's PS2, which clients must follow, emphasizes fair, safe, and healthy working conditions; the right to collective bargaining; and the rights to form workers' organizations. PS2 (para. 13) advises clients that they should not hinder alternative mechanisms for grievance expression where restrictions exist. Clients should not dissuade workers from organizing or engaging in collective bargaining and must engage with workers' representatives in a fair manner. PS2 (para. 14) also mandates that the client neither discourage its workers from electing representatives, forming or joining workers' organizations, or bargaining collectively nor discriminate or retaliate against workers for participating. IFC's Guidance Note on the Performance Standard 2 clarifies the independence of workers' organizations and prohibits employer interference, reinforcing the principles of nondiscrimination and nonretaliation. The notes further advise clients that they should not discourage the formation of organizations, outline protection against discrimination and retaliation, allow access to representatives, and provide opportunities for meetings.<sup>118</sup>
128. In addition to meeting the requirements under the Performance Standards, clients must comply with applicable national law, including laws implementing host country obligations under international law.<sup>119</sup> IFC's PS2 refers to the ILO's core conventions, including the Freedom of Association and Protection of the Right to Organise Convention No. 87 and the Right to Organise and Collective Bargaining Convention No. 98, underscoring the global importance of these fundamental rights.<sup>120</sup> Pakistan, having ratified both, is obligated to uphold them. The Constitution of Pakistan guarantees the right to form associations and unions, with reasonable legal restrictions. Since 2010, labor law responsibilities have been devolved to the provinces, resulting in regional laws such as the PIRA, which closely mirrors the Federal Industrial Relations Act.<sup>121</sup> Consequently, each province's department of labor is responsible for registering unions at company sites.
129. With regard to the security presence at the Karot project site, PS4 (Community Health, Safety and Security) recognizes the potential risks to project-affected people of protecting business activities. It guides companies to adopt responsible security practices including, developing security management plans, training security personnel on human rights, and establishing grievance mechanisms. IFC's goal with these client requirements is to ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to local communities.<sup>122</sup>

### **IFC Actions**

#### ***Registration of the ALU***

130. In May 2017, the ALU sought registration with the District Labor Officer (Registrar Trade Union Rawalpindi or "Registrar") in district of Punjab, but was initially refused.<sup>123</sup> The first application was

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<sup>118</sup> IFC Performance Standard Guidance Note 2 (2012), paras. 37 and 38. Available here: <https://bit.ly/4iCHSrQ>.

<sup>119</sup> IFC Performance Standards (2012), Overview, para. 5. Available at: <https://officecao.org/3WwBwRH>.

<sup>120</sup> ILO Conventions 87 and 98, Available here: <https://officecao.org/4i6MJl6> and <https://officecao.org/4h4IUvz>.

<sup>121</sup> Available at: <https://officecao.org/3H8elmU>.

<sup>122</sup> IFC Performance Standard 4, para. 2. Available here: <https://bit.ly/3Rqk6n3>.

<sup>123</sup> The District Labor Officer in Pakistan is responsible for administering labor laws and policies at the district level. The officer works under the Directorate of Labor Welfare. Available here: <https://labour.punjab.gov.pk/>.

dismissed in August 2017 on jurisdictional grounds and a second attempt in October 2017 was dismissed in January 2018. However, after a successful appeal to the Punjab Labor Court in May 2018, the ALU's registration was confirmed in June 2018.<sup>124</sup> In October 2018, the ALU submitted a membership list including more than a third of the Karot project's workforce at the time to the District Labor Officer, seeking designation as the site's collective bargaining agent. However, according to the complainants, KPCL continued to dispute the recognition of the union.<sup>125</sup>

131. From 2017 onward, during IFC supervision, the Lenders' IESC monitored and reported on whether any formally registered workers' organization was in place at the project. However, IFC's supervision documents produced at the time do not mention the delays with the ALU's registration process or the role of any parties. In its April-August 2018 monitoring report, the Lenders' IESC noted that a labor union was registered but did not identify it by name.
132. In January 2019, the ALU and the Building and Wood Workers' International (BWI) trade unions formally contacted the IFC by letter to report alleged violations of workers' rights at the hydropower construction site. The letter included claims of "noncompliance with minimum legal requirements, victimization of union leaders, and Government intervention in the union registration process." The letter also stated that, after the ALU registration was granted and communicated to KPCL and CTGC management, police officials approached the Labor Department to demand information on why the registration had been granted.<sup>126</sup> In February 2019, IFC responded to the BWI, stating that it had dedicated significant resources to the project's compliance with Performance Standards by closely monitoring the project, sharing the BWI's concerns with the client, and approving corrective actions to be taken by KPCL.<sup>127</sup>
133. The February 2019 Charter of Demands submitted by the ALU and the BWI to IFC claimed that "the previous District Labor Officer had not acted to grant legal registration of the union in connivance with the Management of the Karot Project," reflecting the union's retrospective account of the delays and perceived interference during the registration process.
134. The Lenders' IESC and IFC supervision documentation recorded the labor-related issues raised by the ALU but did not address or evaluate the client's purported involvement in the delay of the union's registration with the Registrar. In addition to conducting its own assessment of the labor-related concerns raised by the BWI and the ALU, IFC formally acknowledged their concerns in a response to the January letter and February charter of demands sent by the two unions. IFC then arranged and participated in several meetings and discussions with both unions and KPCL management, including two conference calls with the BWI (the ALU's international union representative) in August 2019 and January 2020, respectively. However, the ALU stated in its complaint that the calls with IFC did not address the labor issues raised.
135. In 2020, IFC engaged IFC Labor Consultant A to conduct a freedom of association (FOA) assessment of the project, including a broader legal review of FOA in Pakistan. In March 2021, the consultant finalized a report examining the process for registering a trade union at a workplace, conditions for determining the employer for trade union registration, and the appeals procedures

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<sup>124</sup> In its 2018 ruling on ALU's registration, the court recited the history of registration proceedings and focused on the rationale and decisions of the Registrar's Office (the respondent) regarding a lack of jurisdiction. At paragraph 19, the court asserts that the Registrar's decision to dismiss the union's registration was "totally against the law and natural justice." Karot Hydro-03 Complaint Annex 3 Rawalpindi Court Ruling 29 May 2018– Appeal No 01/2018.

<sup>125</sup> Karot Hydro-02 complaint can be reviewed at <https://officecao.org/4e7ht48>.

<sup>126</sup> Karot Hydro-03 complaint, Annex 4, <https://officecao.org/44hG03B>.

<sup>127</sup> Karot Hydro-03 complaint, Annex 5, <https://officecao.org/44hG03B>.

in case of a registration-related dispute.

136. In 2021, nearly three years after the ALU's registration, it was confirmed that KPCL's management contested the ALU's registration due to an incorrect employer declaration. The Registrar had initially rejected the ALU's application in 2017 over jurisdictional issues and had contacted KPCL to verify that the ALU officeholders were employees.

### **ALU and SHU activities**

137. From 2019 onward, IFC project supervision, addressed issues related to freedom of association, including through the Lenders' IESC. Activities included direct communications with its client, project management, and the ALU, as well as its affiliates, the BWI and the PFBWW, which jointly filed the Karot Hydro-03 complaint in 2020. IFC assessed labor issues and PS2 risks at the plant construction site; engaged Labor Consultant A to conduct a deeper assessment of the context for freedom of association; developed the first SCAP, which included provisions on FOA; and monitored SCAP and PS2 issues in general.
138. In July 2019, the SHU applied for registration to operate at the site and was registered by the end of August. Days before the SHU's registration, IFC was informed by the ALU that KPCL supported the SHU, which the ALU viewed as a "yellow union" formed to undermine its efforts to be recognized as a collective bargaining agent.<sup>128</sup> However, in March 2021 IFC's Labor Consultant A concluded that there was insufficient evidence to prove that KPCL management was behind the formation of the SHU.<sup>129</sup>

### **Site security**

139. Site security at the Karot project is managed by both private security personnel and the Pakistani army, with the army overseeing access to the hydropower plant.
140. Early IFC supervision in 2017 and 2018 included a review of PS4-related site security issues in the context of community health, safety, and security but did not register evidence of workers forming or joining workers organizations. This review noted a permanent presence of military personnel at the site as part of the Pakistan-China Economic Corridor, as well as the presence of private security.<sup>130</sup> While the issue of onerous security checks was noted, it was not in relation to the freedom of association issues.
141. In 2019, the BWI and the ALU raised the issue of site security arrangements at the Karot project site and their impact on freedom of association. The unions alleged that union leaders and members were victimized by security personnel, the prevention of union activities at the project site, and security's refusal to allow either the general secretary or the president of the ALU into the project area to address workers' issues. However, the 2019 labor assessment conducted by

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<sup>128</sup> A yellow union is a trade union that is not truly independent, as it is controlled or heavily influenced by the company and responds to its own interests instead of those of the workers. As defined by the ILO Glossary of Industrial Relations and Related Terms, 1996, pg. 3. Available here: <https://officecao.org/4k9w3dH>.

<sup>129</sup> In August 2022, CAO received a complaint from the president of the SHU in relation to IFC's investment in KPCL. The complaint cited issues related to lack of access to the project site to carry out labor union activities and the company's role in facilitating the collective bargaining agreement referendum process. On December 12, 2024, as a result of the voluntary dispute resolution process, the Parties reached and signed a full settlement agreement, which is available at <https://officecao.org/3IAS47A>.

<sup>130</sup> The Middle East Institute has reported that Pakistan's military maintains a substantial security force of over 10,000 soldiers to protect Chinese workers and safeguard China-Pakistan Economic Corridor (CPEC) projects. Naade Ali. *Pakistan's Deepening Strategic Reliance on China* (Middle East Institute, 2024), <https://officecao.org/3GbBXMC>. For more information on the economic corridor see <https://cpec.gov.pk/>.

IFC Labor Consultant A did not evaluate site security issues related to freedom of association. The following year, in 2020, the issue of site security constraints on workers' freedom of association rights was raised again in a complaint letter to IFC by the ALU and the BWI. The Lenders' IESC subsequently reported discrimination by the army against local employees in relation to excessive checks and aggressive treatment when entering the site. In response, TGDC claimed to have discussed the issue with the project security office and requested that soldiers be more respectful with workers.

142. In 2021, IFC again engaged IFC Labor Consultant A to investigate FOA issues, including the accusation that management was not allowing a union leader access to the project site. This assessment concluded that off-site nonemployee union leaders were subject to the same security arrangements as other offsite non-employee visitors, which required 48-hour prior notice.
143. During 2021, IFC and its client also agreed on a second SCAP to address ongoing PS2 implementation gaps. The plan included actions to ensure union access to the site and update the security management plan to include a written statement from KPCL to the military, stating the plant operator's commitment to international standards on the use of force and protection of human rights.
144. In 2022, IFC continued to monitor and advise on the security-FOA issue. IFC documents noted progress on actions by KPCL related to its commitment to union noninterference and ensuring access to the project site. The documents also highlighted ongoing complaints by the trade union. In December 2022, the Lenders' IESC report highlighted how workers who were affiliated with the unions complained that the movement and access restrictions prohibited them from mobilizing and meeting with union representatives either on or off site, which led IFC to open this issue again for further monitoring. During CAO's mission in April 2022, both Pakistani military personnel and private security staff were noted at the site.

## **CAO Analysis**

### ***Awami Labor Union and security forces***

145. Pakistan has ratified the ILO's core conventions protecting the rights to freedom of association. However, the ITUC and the ILO report that laws in Pakistan restrict workers' freedom of association and inadequately protect against anti-union discrimination. Freedom of association in the workplace is often restrained by the government and employers through pressure, prejudicial acts, and interference in trade union activities. Restrictive measures include limitations on union registration, representation, and collective bargaining.<sup>131</sup> Human-rights focused nongovernmental organizations have also criticized Pakistan's union registration system for imposing undue barriers on workers' freedom of association rights.<sup>132</sup>
146. This national context is directly relevant to PS2 (paras. 13 and 14), which requires IFC clients to respect workers' rights to organize, bargain collectively, and engage with representatives without interference or retaliation.
147. Despite this context, CAO found no evidence in IFC's supervision records from December 2016 to February 2019 that IFC collected or documented project-related information on trade unions and freedom of association. CAO found no information or evidence indicating that the IFC was

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<sup>131</sup> ITUC Global Rights Index, June 2014, available here: <https://officecao.org/3ZVpJyt>; and ILO Pakistan Decent Work Country Programme III (2016-2020), September 2016, available here: <https://officecao.org/3RdpOsl>.

<sup>132</sup> Human Rights Watch, No Room to Bargain (January 2019), <https://officecao.org/4i9sXo4>.

aware of the ALU's registration requests in 2017 and 2018 or its application to be the site's collective bargaining agent submitted in October 2018. IFC became aware of the ALU's seeking recognition as the agent and alleging interference by KPCL when the ALU notified IFC in February 2019 in its Charter of Demands.

148. In 2019 and 2020, the Lenders' IESC monitored FOA issues as raised by the ALU and the BWI. IFC conducted its own assessment of these issues at the hydropower plant in 2021. The labor assessment carried out by IFC Labor Consultant A in December 2019 noted an oversight in terms of not collecting additional information. Moreover, IFC's 2021 assessment lacked detailed information on security practices at the project site in relation to workers' freedom of association, including potential differences in treatment of union and nonunion employees. The review did not examine whether the security measures may have deterred union activity or contributed to differential treatment of union versus nonunion workers. Without such information, it was not possible for IFC to effectively evaluate PS2 noncompliance risks and impacts regarding union discrimination.
149. ***Therefore, CAO finds that IFC fell short of its obligations under the Sustainability Policy (paras. 7 and 45) to adequately collect detailed evidence of its client's implementation of FOA requirements within a reasonable amount of time and accordingly, lacked a supervisory basis to ensure its client did not dissuade, discourage, discriminate, or retaliate against workers for organizing, engaging in collective bargaining, and engaging with workers' representatives in accordance with PS2 (paras. 13 and 14).***

#### ***Social Hydro Labor Union***

150. Although the SHU's application to operate as the project's union was processed much more quickly than the ALU's application, CAO found no indication that the Registrar informed KPCL about the SHU's registration process, or that the IFC client contested or endorsed the SHU's registration application. Additionally, when the ALU applied for registration, the Registrar contacted KPCL to verify that the ALU's officeholders were employees. This step was part of the Registrar's due diligence and was later cited as a basis for rejecting the ALU's application due to jurisdictional issues. In contrast, when the SHU applied for registration in July 2019 and was approved in August 2019, the CAO found no information to suggest that the Registrar contacted KPCL for similar verification. This discrepancy raises concerns about procedural fairness and consistency in how union applications were handled. CAO found no indication that the Registrar contacted KPCL to confirm that the SHU's officeholders were employees at the plant.<sup>133</sup>
151. ***CAO finds that IFC effectively supervised the ALU's claims that KPCL interfered in its union activities by establishing and supporting the SHU, including by commissioning IFC Labor Consultant A to review this issue.*** The consultant did not reach a conclusion and CAO's investigation, including interviews with representatives of both trade unions, did not find sufficient evidence to conclude client interference through the SHU in the ALU's activities. In addition, the SHU representatives submitted a complaint to CAO in August 2022 alleging KPCL was limiting their ability to access the site and represent workers. As of the writing of this report, the Karot Hydro-07 complaint has been closed after being monitored in Dispute Resolution.<sup>134</sup>

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<sup>133</sup> The ALU conveyed these observations through letters sent to IFC in August 2019 and January 2020. These letters detailed the labor issues and provided updates on the progress of discussions and negotiations between the ALU and the Company. Karot Hydro-03 complaint, <https://officecao.org/44hG03B>.

<sup>134</sup> The case agreement was monitored by CAO until June 2025, and the parties have committed to implementing the

## CAO Assessment of Related Harm

152. ***IFC’s supervision gaps — specifically, the failure to collect timely and detailed information on the ALU’s registration delays, site access restrictions, and security-related impacts on FOA — limited its ability to ensure the client met PS2 obligations to respect workers’ rights to organize and bargain collectively. Taken together, these shortcomings lead CAO to conclude that there are indications of Harm to the complainants.*** While CAO notes that KPCL challenged the ALU’s registration, delaying it for over a year, the available information does not allow CAO to determine whether this was impermissible interference or a legitimate legal challenge.
153. CAO received multiple testimonies from union representatives and workers describing forced resignations and the large-scale presence of military forces at the project site. While CAO was not able to independently verify these accounts, taken together, they indicate conditions that could create an intimidating atmosphere for union members and potentially deter participation in union activities. The access restrictions for the ALU’s representatives to the Karot project site since 2020 and the absence of a finalized collective bargaining agreement throughout the construction period, during which the workforce peaked at approximately 4,400 Pakistani workers, significantly impaired the ALU’s ability to represent workers. In this context, CAO notes that eight years have passed since the ALU applied to represent workers, and the collective bargaining agreement (CBA) remains pending. Under these conditions, there was no agreed mechanism between the employer and representatives of workers’ organizations for the collective negotiation of workers’ terms and conditions of employment. In such circumstances, these terms are typically set by the employer, subject to applicable law, rather than through bargaining with worker representatives. This situation likely reduced opportunities to address worker concerns on wages, benefits, and working conditions collectively, and may have had adverse social impacts on fairness, equity, and the protection of workers’ rights in practice.

### 3.3.5 Supervision Related to Occupational Health and Safety

#### Description of the Issue

154. The Karot Hydro-03 complaint brought by the unions in July 2020 at the height of the COVID-19 pandemic alleged that KPCL had neither provided adequate PPE during project construction nor implemented appropriate COVID-19 procedures, endangering the health and safety of site workers. The complaint also alleged that KPCL failed to establish broader COVID-19 worker safety measures, such as testing facilities, access to qualified doctors, and safety supplies; did not implement social-distancing protocols; and prevented workers from leaving the site for family emergencies.

#### Relevant IFC Requirements

155. PS2’s OHS provisions mandate that IFC clients provide a safe and healthy work environment, including considering inherent risks in the sector and specific hazards in work areas, including physical, chemical, biological, and radiological hazards. Clients are required to take steps to prevent accidents, injuries, and diseases at the worksite by minimizing hazards as far as

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terms of the agreement for a minimum of two years beyond CAO’s involvement. The CAO case closed in November 2025. More information about the Karot Hydro-07 complaint is available at <https://officecao.org/3KibUBL>.

reasonably practicable, including identifying potential hazards, providing preventive and protective measures, training workers, documenting and reporting occupational accidents and incidents, and establishing emergency prevention, preparedness, and response arrangements. For relevant activities, IFC clients are required to provide appropriate PPE with training on its use and maintenance at no cost to the worker.<sup>135</sup>

156. Additional standards and guidelines relevant to this case, including ILO conventions 155 and 164 and IFC's Good Practice Note for Hydropower Projects, support the continuous improvement of health and safety management systems at settings like the Karot project site.<sup>136</sup>

### **IFC Actions**

157. During IFC's early supervision of the plant's construction in 2017, the Lenders' IESC identified substantial deficiencies in on-site OHS management and monitoring systems. Several instances of noncompliance with PPE requirements were observed, including insufficient provision of PPE, and workers failing to wear safety footwear, working in tunnels without respirators, and wearing loose clothing. In April 2017, the Lenders' IESC recommended that KPCL develop a dedicated PPE procedure outlining responsibilities for procurement and distribution of PPE and specifying mandatory requirements.
158. From 2018 to 2024, IFC's OHS supervision program included direct communications with KPCL, the EPC project management teams, and key on-site personnel. IFC conducted site supervision visits with the Lenders' IESC focusing on OHS issues. In addition, IFC facilitated its client's engagement of an independent consultant to conduct a labor assessment of its EPC contractor, TGDC, and supported KPCL's OHS specialists to conduct thorough assessments of and enhance OHS practices. Regular inspections and audits, both internal and external, were part of this comprehensive approach, ensuring that OHS issues were consistently addressed.
159. By 2018, PPE performance had improved, although isolated incidents were still noted. The Lenders' IESC reported that workers had to pay for PPE that needed to be replaced within six months, which they considered unfair and which did not align with PS2 requirements.
160. In 2019, IFC intensified its supervision to address shortcomings in PPE implementation as part of broader OHS improvements. In August 2019, a significant event was a high-level workshop in Beijing, focusing on E&S issues. The three-day workshop included sessions on high-risk E&S items, IFC Performance Standards, health and safety, workers' grievance mechanisms, accommodations, labor conditions, and community relations. Presentations, led by the Lenders' IESC, included open discussions with stakeholders including KPCL, TGDC, and CTGC.
161. In 2019, the Lenders' IESC observed general improvements with OHS issues but noted ongoing concerns regarding PPE compliance, such as the inconsistent use of safety harnesses. IFC Labor Consultant A's report of the same year also identified deficiencies in PPE quality and practices, as well as instances of salary deductions for replacement PPE, recommending a review to ensure adherence to quality standards.
162. In 2020, the Karot project faced interruptions due to the COVID-19 pandemic, including a temporary suspension in March and a site closure in November, which restricted the ability of the

<sup>135</sup> IFC, Performance Standard 2 (2012), para. 23 and PS Guidance Note 2, GN 76-83. Available at <https://bit.ly/3Rqk6n3>.

<sup>136</sup> IFC, Good Practice Note: Environmental, Health, and Safety Approach for Hydropower Projects, March 2018. Available here: <https://officecao.org/4i6w9BP>; and ILO Convention 155 and 164, available here: <https://officecao.org/41ooXK9>, and here: <https://officecao.org/4br7eXe>.

Lenders' IESC to conduct site visits, although remote monitoring continued. In April 2020, IFC issued a memorandum detailing measures to control COVID-19 outbreaks at active project sites.

163. During the temporary suspension of work activities, while there were no confirmed COVID-19 cases at the time, there were restrictions on workers' ability to return to the site until KPCL's restrictions were lifted. IFC collaborated with KPCL and CSAIL on COVID-19 risk management and site reopening, implementing health and safety measures in response to the pandemic. KPCL purchased US\$1.5 million worth of protective equipment; transferred medical specialists from China for staff training; rented rooms in Islamabad for expatriate quarantine; constructed additional rooms for worker quarantine; and enforced daily temperature checks, disinfecting procedures, and social distancing measures.
164. In mid-2020, the project Lenders' IESC included a COVID-19 corrective action plan in its supervision activities. Unable to conduct site visits, the Lenders' IESC monitored the situation through document review and virtual meetings, commending the client's quick response to labor risks. The report noted extensive measures taken by KPCL, including awareness-raising, training sessions for on-site employees, and distribution of protective supplies. Subsequent remote monitoring conducted by the Lenders' IESC recorded that the site's first COVID-19 case was detected in November 2020, leading to a peak of 40 infections. In March 2021, the Lenders' IESC introduced a new corrective action to address breaches concerning face mask usage and social distancing among workers, stressing to IFC's client the need for vigilance.
165. Throughout 2020-2022, PPE usage in relation to the COVID-19 pandemic was a key issue in IFC supervision documents. In considering a 10th debt disbursement in July 2020, IFC noted PS2 concerns, including PPE noncompliance such as damaged and absent masks. The Lenders' IESC called for a PPE quality assessment and awareness training for site employees.
166. In early 2021, IFC's Labor Consultant B issued a remote labor assessment report that included OHS findings but did not explicitly mention PPE issues. In March 2021, KPCL and IFC agreed to a second SCAP with 16 priority categories, including providing quality PPE at no cost to workers. In May 2022, the Lenders' IESC confirmed that PPE-related actions in the SCAP had been properly addressed, including policy revisions and quality checks.
167. During its 2022 and 2023 supervision for IFC and the other project lenders, the Lenders' IESC observed overall improvements in OHS conditions at the plant but noted recurring issues related to PPE. In 2024, supervision reports by the Lenders' IESC again identified worker training and suitable PPE as corrective actions.

### CAO Analysis

168. **CAO finds that IFC demonstrated a structured and comprehensive approach to supervising PPE provision at the Karot project site, consistent with its obligations under the Sustainability Policy.** IFC's supervision program was extensive, evolving over time to address identified OHS risks. It enabled effective monitoring of client and EPC contractor compliance with relevant Performance Standards.
169. IFC's supervision included site visits, document reviews, client consultations, the engagement of third-party labor consultants, inspections, audits, and the implementation of SCAPs. These measures were consistent with IFC's obligations under its Sustainability Policy to ensure that clients manage E&S risks in accordance with Performance Standards.
170. Throughout the supervisory period, IFC identified, documented, and took appropriate actions to

address PPE risks and deficiencies. IFC consistently monitored overall PPE usage. Observations from early 2017 include inadequate PPE provision, poor quality equipment, and improper usage.

171. IFC's corrective actions addressed both specific instances of improper PPE usage and systemic issues related to PPE use. Measures included developing PPE procedures, providing training for workers and supervisors, and ensuring the provision of quality PPE at no cost to workers.
172. During the COVID-19 pandemic, when the IFC and the Lenders' IESC were unable to conduct in-person site visits, they adapted to the situation by relying on document reviews and virtual meetings and consultations and by engaging a Pakistan-based labor specialist for on-site monitoring. CAO finds that the client's response to COVID-19 risks was rapid and aligned with Good International Industry Practice (GIIP) and IFC's Interim Advice.<sup>137</sup> IFC's supervision also identified and addressed breaches of COVID-19 protocols by workers.

### CAO Assessment of Related Harm

173. Regarding complainants' allegations of unsafe working conditions, CAO notes that IFC and its consultants recorded numerous instances of PPE performance gaps in the early years of the project, including workers not wearing safety footwear, respirators, or safety harnesses. Despite later identifying shortcomings, the project has worked to overcome a broad range of challenges and has strengthened its OHS management. Grievances related to salary deductions for PPE were eventually addressed at IFC's insistence by ensuring PPE was provided at no cost to workers. ***While CAO acknowledges potential harm experienced by the complainants, it concludes that this harm is not related to IFC noncompliance with the Sustainability Policy because IFC took reasonable and timely steps—consistent with its policy obligations—to identify, address, and monitor PPE-related risks.***

## 3.3.6 Supervision Related to Terms of Employment and Retrenchment

### Description of the Issue

174. The 2020 Karot Hydro-03 and Karot Hydro-04 complaints alleged terms-of-employment concerns including:
  - Wages for KPCL workers were inadequate when compared with wages for workers in similar industries in Pakistan.
  - Benefits mandated by national law, such as bonuses and leave, were absent.
  - There was no salary differentiation between skilled and unskilled workers.
  - Workers were being terminated without compensation, unfairly dismissed, and forced to resign.<sup>138</sup>

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<sup>137</sup> To prevent the spread of COVID-19, the World Health Organization (WHO) recommends keeping physical distance of at least 1 meter from others, avoiding crowds and close contact, wearing a properly fitted mask, cleaning your hands frequently, and self-isolating in case you develop symptoms or test positive for COVID-19. Available here: <https://officecao.org/4nxl91d>. Interim Advice for IFC Clients on Developing a COVID-19 Emergency Preparedness and Response Plan (EPRP), May 25, 2020. Available here: <https://officecao.org/48UL5RZ>.

<sup>138</sup> The complaint asserts that KPCL's contractor, TGDC, has dismissed workers without providing valid reasons or the necessary compensation.

### Relevant Performance Standard Requirements

175. IFC PS2 (paras. 8-9) provides clear directions for clients on the issues raised in the Karot Hydro-03 and Karot Hydro-04 complaints. It sets out requirements for HR policies, working conditions, terms of employment, retrenchment plans, and the engagement of workers by third parties. A client must implement HR policies appropriate to its size and workforce and must provide workers with clear and understandable information on their rights under national labor and employment law including hours of work, wages, compensation, and benefits.<sup>139</sup> To provide reasonable working conditions and terms of employment in line with PS2, a client should consider whether its terms and conditions are in line with industry, sector, and geographic norms. IFC generally expects clients to provide terms and conditions that are at least as favorable as those provided by comparable employers in the project country.<sup>140</sup> In addition, IFC PS2 GN15 asserts that “*clients should keep a written record of the employment relationship conditions at the time of hire of each directly contracted worker. Documentation needs to be up-to-date and maintained by a designated responsible person or department.*”
176. Regarding workers’ rights to negotiate working conditions, PS2 (para. 10) asserts that if a client has a collective bargaining agreement with a workers’ organization, the agreement will be respected. If no such agreement exists or agreements in place do not cover working conditions and terms of employment, the client will provide reasonable working conditions and employment terms.
177. In terms of retrenchment, PS2 (para. 18-19) requires the client to carry out an analysis of alternative options other than laying off workers and, if other options are not viable, develop retrenchment plans to mitigate the adverse impacts on employees.<sup>141</sup> These plans should be based on nondiscrimination and include advance notice, consultation with employees, and the provision of severance payments and support services.
178. The use of third-party contractors for IFC-financed projects is highly relevant to this case because KPCL and TGDC hired many of the on-site workers when construction began in 2016. PS2 (para. 24-26) highlights the responsibility of companies to make commercially reasonable efforts to ensure that third-party contractors who supply labor adhere to the same labor policies and procedures as the primary employer, except for the PS2 retrenchment requirements.<sup>142</sup>
179. In addition, the PS2 Guidance Note mentions that client documentation should be clear, easily understandable, accurate, and appropriate to the length and nature of the employment relationship.<sup>143</sup> The guidance references the ILO’s Employment Relationship Recommendation No. 198 regarding difficulties establishing whether an employment relationship exists because the respective rights and obligations of the parties concerned are not clear, there has been an attempt to disguise the employment relationship, or the contractual arrangements effectively deprive workers of the protections they are due. Regarding Terms of Employment, the ILO maintains that the determination of an employment relationship should be guided primarily by the facts relating to the performance of work and the remuneration of the worker, notwithstanding how the relationship is characterized in any contractual arrangement that may have been agreed between the parties.<sup>144</sup>

<sup>139</sup> IFC Performance Standard 2, para 8-9.

<sup>140</sup> PS2 Guidance Note, GN 25.

<sup>141</sup> IFC Performance Standard 2, para 18-19.

<sup>142</sup> PS2 para 24-26 and PS2 Guidance Note, GN 10-11 for further clarification on worker types.

<sup>143</sup> PS2 Guidance Note, GN 17.

<sup>144</sup> Employment Relationship ILO Recommendation No. 198, 2016. Available here: <https://officecao.org/4i9qrhS>.

## IFC Actions

180. In early 2017, IFC and the Lenders' IESC documented terms of employment issues regarding minimum wages, incorrect or no-overtime payments, delayed wages and a lack of leave payments and benefits. In response, IFC requested that KPCL conduct an internal labor audit and train HR representatives on Pakistan's labor laws and PS2 requirements. In a subsequent report, the Lenders' IESC noted that the client carried out an internal labor audit but did not identify any workers who were being paid less than minimum wage.
181. In early 2018, IFC concluded that ongoing challenges remained in terms of subcontractor coordination and recommended auditing all contractors to ensure compliance with KPCL's HR policy, including verification of overtime payments and imposition of penalties for noncompliance. IFC also required contractors to adopt and disclose workers' code of conduct.
182. As these issues remained unresolved, in February 2019, IFC hired Labor Consultant A to conduct an assessment. Based on document reviews and interviews with 112 Pakistani and 20 Chinese workers, the consultant identified various employment grievances related to unfair dismissals; delayed wage payments; the implementation of national labor laws regarding working hours; leave payments, social security, pensions, worker representation, reporting, and labor rights information posting. The consultant also found instances of wage deductions for PPE replacement and recommended a review to ensure adherence to standards. In addition, IFC Labor Consultant A recommended a payroll review off each construction section to ensure that workers in semiskilled and skilled positions received their wages as defined under the national minimum wage laws and to compensate any workers identified as having been underpaid, dating back to when their contracts began.<sup>145</sup>
183. In the same year, IFC requested that KPCL provide details of all staff terminated since the start of the project, including the reasons for dismissal, and develop new retrenchment policies compliant with PS2. In relation to contractor reimbursement of overtime wages owed to workers, the Lenders' IESC requested a close-out report from the client summarizing the process followed and its implementation. IFC supervision documentation noted that payments were made to active workers but a procedure was needed to receive claims from workers who had not been reimbursed because they had already left the project. IFC's supervision documentation at this time did not directly address the question of KPCL and TGDC project salaries compared with industry, sector, and geographic norms, although such concerns were noted in the ALU's Charter of Demands presented to IFC in February 2019.<sup>146</sup> In August 2019, a workshop with the client, IFC, and Lenders was held to discuss identified high-risk environmental and social issues, including terms of employment.
184. In February 2020, the Lenders' IESC asked KPCL to implement actions to meet PS2 terms-of-employment requirements based on IFC Labor Consultant A's report, including randomly reviewing payroll records and reimbursing entitlements (e.g., wages and leave pay) off current and former workers. The Lenders' IESC report also noted instances of excessive overtime. IFC subsequently noted that the process for workers' reimbursement for overtime had begun and the action regarding payments had been completed, leaving all actions finalized and no outstanding issues remaining. However, CAO found no indication that a close-out report, which would

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<sup>145</sup> While by October 2018 the Lenders' IESC has marked the issue of the lack of leave payments as resolved, the interviews conducted by IFC Labor Consultant A raised the issue again.

<sup>146</sup> Karot Hydro-03 Complaint Annex 6.2, Charter of Demands sent to IFC 15 February 2019.

document the completion of the requested reimbursements, was prepared by the client or submitted for supervisory review.

185. In July 2020, the 10<sup>th</sup> disbursement was approved with a waiver for outstanding PS2 performance gaps. IFC incorporated corrective measures into its first Supplemental Correction Action Plan (first SCAP), expected to be completed by August 31, 2020, or prior to the next disbursement. This was the first instance in which IFC linked persistent concerns regarding implementation of PS2 terms of employment requirements to a financial disbursement. The agreed actions included:
- Developing a plan and monitoring process to reduce excessive working hours.
  - Issuing a zero-tolerance statement to all supervisors and Human Resources staff regarding denial of leave payments (including sick leave) and termination of contracts at will.
  - Ensuring that all workers receive at least the statutory minimum wage under Pakistani law, demonstrated through random payroll inspections by the Lenders' IESC.
  - Communicating leave and disciplinary procedures to all workers during regular monthly toolbox talks.
  - Ensuring that all contractors followed PS2 requirements for workers' payroll, PPE, OHS, and accommodation.
186. Following the outbreak of the COVID-19 pandemic and the closure of the project site in November 2020, IFC's supervision focus shifted to pandemic mitigation measures. By November 2020 the Lenders' IESC reported that a payroll review report found no minimum wage contraventions and demobilization plan was developed and communicated to construction workers across all work sections.<sup>147</sup>
187. By November 2020, due to the COVID-19 pandemic, approximately 800 workers were sent home. Some expressed their desire to resign and be paid their severance because they had not been recalled as promised. As a result, IFC hired Labor Consultant B to assess whether retrenchment policies at the hydropower site complied with PS2. In addition, the consultant's report noted that 21 former workers claimed that they did not receive severance payments while KPCL management and contractors provided evidence of workers having received severance payments. The report also recorded worker grievances alleging unfair dismissal without justification. In part due to the persistent labor issues, the disbursements to both KPCL and CSAIL were suspended in 2020, after the 10<sup>th</sup> disbursement.
188. In the same year, IFC developed the second SCAP, which included the deferred actions originally agreed as part of the 10<sup>th</sup> disbursement. The second SCAP was tied to the 11<sup>th</sup> loan disbursement, which included requirements for developing a monitoring schedule, meeting working hour reduction target, implementing a communication campaign to reduce workforce tensions, producing a retrenchment plan, providing a list of terminated workers, along with benefits and

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<sup>147</sup> According to CAO's mission notes, KPCL acknowledged that irregular wage-payments practices had occurred in the project's early stages. The onset of the COVID-19 pandemic in 2020 redirected the project's resources to outbreak control, which led to a number of dismissals. In response, the client placed an advertisement in a newspaper and on notice boards inviting former workers to raise claims if they believed they were underpaid during termination. According to KPCL, only six people came forward. For further details on the newspaper advertisement see Daily Express Urdu Newspaper (2021), <https://officecao.org/4lwS1bU>

severance payments, and updating the contract template.

189. In its subsequent report, the Lenders' IESC noted continuing unresolved labor issues also identified by IFC Labor Consultant B. These findings contributed to IFC's decision to suspend further disbursements to KPCL. As a result, the anticipated 11<sup>th</sup> IFC disbursement never occurred, and the loan disbursement period ended in 2022.
190. In October 2021, a report by the Lenders' IESC stated that most of the Pakistani workers interviewed claimed their remuneration was not transparent or accurate, and that they were not routinely provided with timesheet records but also qualified that this information could not be fully verified. IFC's supervision documentation noted widespread lay-off periods in May and November 2020, and in 2021, concerns were noted about how they were handled. IFC requested that KPCL provide details on all project staff who had been terminated since construction began and requested that the project develop PS-compliant retrenchment policies. More broadly, to address capacity constraints in managing labor issues, an international specialist labor advisor was appointed by the Project to advise TGDC on addressing emerging and current labor management challenges.
191. In 2022, the Lenders' IESC noted that site contractors, including TGDC, had not been contractually informed of project's labor-related requirements. The Lenders' IESC also documented cases of immediate termination that did not follow appropriate misconduct procedures, deductions from final settlements in the forms of fines, and failure to pay the mandatory one-month notice period.
192. In April 2022 the Lenders' IESC reported progress on severance payments for workers laid off in 2020. However, issues persisted regarding contract records, nonadherence for subcontracted workers, and unpaid wages to Pakistani workers during the COVID-19 pandemic.
193. In 2023, KPCL reviewed its retrenchment records and claimed that it had fully complied with the corrective actions that IFC requested. However, IFC's supervision documentation continued to identify gaps related to terms-of-employment requirements, and the 2023 supervision report documented the client's persistent failure to address E&S gaps that the Lenders' IESC had noted repeatedly over a long period of time. The Lenders' IESC identified ongoing severance payments recently owed to direct TGDC workers from September 2022 to May 2023 are being paid. However, there were potential gaps related to workers whose employment concluded during the COVID-19 pandemic.

### **CAO Analysis**

194. A review of IFC's supervision documentation indicates that gaps persisted in the project implementation of PS2 terms of employment requirements during the construction period (2016-22). In particular, it notes issues with on-time salary payments, overtime payments, leave payments, wage deductions, reasonable working hours, formal contracts, and no notice terminations.
195. As these issues arose, IFC sought to address each instance. However, IFC's supervision documentation records mixed success in addressing the concerns, including some that were cited multiple times during the construction period, indicating systemic gaps in the project's HR policies and procedures and their implementation rather than isolated incidents.
196. IFC did not attempt to link resolution of these persistent labor issues to its financial leverage until mid-2020, when it tied the completion of corrective actions to its tenth loan disbursement for the

project. CAO notes that IFC cited the client's commitment to the first SCAP and the COVID-19 pandemic as context for waiving resolution of PS2 compliance gaps at that time. While the pandemic limited certain operational activities globally, it did not prevent the Lenders' Independent Environmental and Social Consultant (IESC) or IFC-engaged labor consultants from accessing site documentation and reporting on conditions. Accordingly, the pandemic context does not fully explain why IFC delayed using its financial leverage until this late stage, nor why the waiver was granted despite persistent PS2 performance gaps at both the individual case level and at the project's HR policy and procedure level.

197. **CAO therefore finds that IFC supervision did not achieve timely resolution of persistent and well-documented allegations of PS2 performance gaps in relation to the adoption and implementation of HR policies and procedures, and retrenchment (PS2 paras. 8, 9, and 19) as expected by the Sustainability Policy (paras. 24 and 45).**

#### **CAO Assessment of related Harm**

198. **CAO concludes that complainants experienced Harm related to IFC's noncompliance with its supervision obligations under the Sustainability Policy in terms of wages, benefits, and retrenchment conditions.** At various points, IFC's supervision reports document persistent issues related to terms of employment including on-time salary pay, wage deductions related to PPE charges, leave and overtime payments, reasonable working hours, and no notice terminations. CAO gathered consistent testimonies of unfair dismissal and coerced resignations during its investigation, with eight union workers asserting that they had been forced to resign or were dismissed without a clear reason, given minimal termination benefits and not provided a copy of their termination letters.<sup>148</sup>
199. Gaps in the HR policies and procedures of the client and the EPC to address these issues in a manner consistent with PS2 requirements continued during the course of IFC's supervision, and IFC did not take sufficient steps to remedy the situation in a timely manner.

### **3.3.7 Supervision Related to Workers' Grievance Mechanism**

#### **Description of the Issue**

200. The Karot Hydro-03 complaint alleged that the client did not operate a workers' grievance mechanism (WGM) at the project site, despite numerous requests from the complainants for a forum to address workers' complaints.

#### **Relevant IFC and Client Requirements**

201. PS2 emphasizes the importance of clients establishing a workers' grievance mechanism (WGM) at relevant IFC-financed projects. Paragraph 20 outlines the requirements for such a mechanism, ensuring that workers have a reliable and accessible way to raise concerns and grievances. The mechanism should involve an appropriate level of management, address concerns promptly, and provide timely feedback without retribution. It should also allow for anonymous complaints and not impede workers' access to other judicial or administrative remedies.
202. Also relevant to this case, where many on-site workers were employed by the client's construction

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<sup>148</sup> One of the cases was described as a constructive dismissal. The worker stated they were forced to resign after the employer created a hostile and retaliatory work environment. One of the workers had a copy of the termination letter; the rest claimed they did not receive a copy or that it had been taken by army personnel.

contractor, PS2 GN90 asserts that: “where workers are employed by a third party with limited capacity to deal with workers’ grievances the client should either take steps to ensure that the third party has a grievance mechanism in place, or should establish a grievance procedure which allows for the workers of the third party to directly bring complaints to the client, which the client should then bring to the attention of the third party for resolution.”

### IFC Actions

203. IFC’s pre-investment ESDD noted that CSAIL’s existing management practices included grievance channels for employees. At that time, KPCL declared its intent to adopt the HR policies and procedures of CSAIL, its majority owner, including a grievance mechanism for its workers and contractor employees that would communicate cases to relevant line managers for resolution.<sup>149</sup>
204. During supervision, IFC implemented regular monitoring of and reporting by the Lenders’ IESC on the client’s WGM. In 2017, the Lenders’ IESC noted that a WGM was established but had several deficiencies, including the lack of maintenance of grievance logs, the absence of on-site grievance boxes for depositing complaints, and limited awareness of the WGM’s existence among management and workers. After Lenders’ IESC highlighted a significant lack of communication and integrated management by KPCL and TGDC, its construction contractor, IFC requested that KPCL instruct the EPC contractor to make the WGM accessible site-wide to all EPC and sub-contractor workers.
205. In 2018, the Lenders’ IESC reported the establishment of a Workers’ Council and Management Committee (WCMC) at the hydropower site in compliance with Pakistani law and recommended that KPCL develop a standardized approach to penalties and incentives for contractors handling labor issues. The report to IFC further noted that TGDC was implementing the WGM by compiling its own grievance log, and that monthly grievance redress meetings were held jointly by KPCL and TGDC which included worker representatives. However, the Lenders’ IESC concluded that extending the WGM to all on-site contractors and workers remained challenging and that implementation was still not sufficiently effective.
206. In July 2019, a report by the Lenders’ IESC mentioned that the on-site workers’ GM was ineffective and required attention. The report recommended additional training, continual review of the grievance logs, and adjustment of communication channels to ensure their effectiveness.<sup>150</sup> By November 2019, the Lenders’ IESC noted an improvement, given TGDC’s increase in monitoring the closure of grievances and the creation and maintenance of one master electronic grievance log.
207. In 2021, five years into its investment in the hydropower project, IFC engaged Labor Consultant B to review the implementation of the on-site KPCL and TGDC grievance mechanisms and their alignment with PS2 requirements. The consultant’s report noted that workers had raised repeated concerns about the Karot project’s WGM, including workers’ ongoing lack of awareness about its existence, perceptions that KPCL was ignoring their grievances, and fears of retaliation if they utilized the grievance process. Workers also alleged that management had not adequately addressed any of these concerns. However, the report did not conclude that the allegations were substantiated. During the same year, the Lenders’ IESC recommended developing and

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<sup>149</sup> IFC Equity ESRS. Available here: <https://officecao.org/4o6VttY>.

<sup>150</sup> Suggested improvements included, conducting more toolbox talks emphasizing that raising grievances will not lead to repercussions, putting additional grievances boxes in discrete locations for anonymous postings, and interviewing workers as part of grievance monitoring.

implementing a standardized system for applying penalties and incentives to contractors for more effective management of labor issues. The second SCAP agreed between IFC and KPCL included commitments for KPCL to: (1) review the WGM and develop a clear policy to handle complaints; (2) train management teams on grievance handling; and (3) inform all workers about the WGM, highlighting that those who brought complaints would not be retaliated against.

208. In 2022, the Lenders' IESC reported improvements, including: overall increased client effort and resources directed at resolving grievances, additional on-site signage about the WGM and whistleblowing policies, and the installation of additional grievance boxes. The Lenders' IESC also noted that extensive training had significantly raised awareness among workers about how to use the mechanism. However, awareness of the client's whistleblowing and anti-reprisal policies, was limited, indicating a need for further training.
209. In 2023, the Lenders' IESC noted KPCL's demonstrated commitment to addressing workers' grievances, resulting in fewer outstanding issues. Evidence included photographs of payments to workers, records of meetings to resolve complaints, and a complaints box on site. The Lenders' IESC noted that all grievances raised in March 2023 had been recorded by the IFC client as resolved. Reporting on grievances had improved, with KPCL providing more detailed information in a table that specified the status and nature of each grievance. The following year, the Lenders' IESC noted that the project included a documented WGM accessible to workers.

### CAO Analysis

210. **CAO finds that IFC adequately supervised the client's application of PS2 requirements on operating a Workers' Grievance Mechanism.** From July 2017 to June 2022, during the peak of construction, the evidence reviewed by CAO indicates that the Lenders' IESC consistently reviewed and addressed issues—such as expanding the workers' access to the grievance mechanism and improving the grievance logging and reporting systems, by adding more discreet grievance boxes and going from multiple logs by different contractors to a single, centralized log created and maintained by TGDC. Furthermore, the Lenders' IESC recommended the implementation of better procedures and staff training as needed to improve effectiveness. IFC addressed the issue of establishing WGM based on CSAIL's model during ESDD, monitored the issue from the outset of its supervision, and made it a focus of the regular monitoring of the Lenders' IESC throughout the supervision period. This continuous monitoring ensured that any issues related to workers' grievances were identified and frequently brought to the attention of the client and its EPC contractor. For each regular monitoring report, the Lenders' IESC examined the WGM mechanisms and procedures, as well as their implementation, including reporting on the grievances logged and the related consultations with affected workers.
211. While in 2019 the Lenders' IESC report gave the site's WGM a risk rating of "high", IFC's proactive response—hiring a labor consultant to conduct an additional review and including WGM corrective actions in the 2021 SCAP—resulted in significant improvements recorded regarding the client's efforts and resources spent on the WGM, and the resolution of worker grievances.
212. IFC's sustained and structured supervision of the grievance mechanism—through early identification of deficiencies, continuous monitoring by the Lenders' IESC, and targeted corrective actions—such as inclusion in the 2021 SCAP—was effective in demonstrating eventual compliance with PS2 requirements. However, these improvements were gradual, occurring only after several years of the mechanism not functioning effectively—from the workers' perspective. This lag reduced the mechanism's ability to serve its intended purpose during the peak construction period, when the timely resolution of grievances was most critical. This case

underscores that while IFC's approach ultimately delivered results, earlier and more decisive intervention could have mitigated the period of limited worker access and trust, thereby enhancing compliance outcomes and worker protection.

### **CAO Assessment of Related Harm**

213. Although IFC took appropriate measures to ensure PS2 compliance, as detailed above, CAO observes that the project, especially in the early years, did not provide an effective grievance mechanism from the workers' perspective. For several years, many workers were unaware of the mechanism, feared reprisals for raising complaints, and/or perceived that their grievances were ignored by the IFC client. As a result, in the view of the workers and complainants view, there was no reliable and accessible way for them to raise concerns about and seek resolution of the many labor-related issues occurring at the hydropower site. ***CAO acknowledges the validity of the complainants' concerns and the impact these issues had on them; however, it determines that the harm identified is not attributable to IFC noncompliance under the requirements of the Sustainability Policy.***

## 4. Underlying Causes of Noncompliance

214. CAO's analysis suggests that two key factors contributed to IFC not fully complying with its Sustainability Policy in this case.

### 4.1 Limited Recognition of Contextual Labor Risks

215. IFC's ESDD, did not fully take into account the national context regarding the widespread and well-documented labor-related issues in Pakistan, including wage payment irregularities, retrenchment practices, and constraints on freedom of association, all of which are highly relevant to a large-scale infrastructure project employing several thousand workers. KPCL was a special purpose vehicle created solely to develop and operate the hydropower plant, and its majority owner and sponsor CSAIL was a recently established investment holding company without established environmental and social systems, policies, or capacity. Under these circumstances, a detailed understanding of the labor context would have helped anticipate risks, design appropriate mitigation measures, and determine the level of capacity building required before project implementation.
216. The project's ESIA and accompanying ESMP to which operationalize the ESIA's findings, did not sufficiently address labor concerns, including those issues raised in this case. The absence of a contextual risk lens in IFC's ESDD meant that IFC's review of the ESIA did not fully identify or challenge the limited treatment of labor and working conditions within the ESIA and the ESMP. Instead, IFC's ESDD and early supervision of PS2 focused predominantly on occupational safety aspects of the project. As a result, the project's ESAP lacked specific actions to mitigate systemic labor risks that later became the subject of multiple worker complaints.
217. The limited treatment of labor and working conditions in the ESIA and the absence of detailed measures in the ESMPs to address these issues meant that IFC did not have a comprehensive basis for assessing the client's capacity needs in relation to developing and implementing HR policies and procedures consistent with PS2 requirements. Without a clear identification of the specific labor risks and management gaps at the outset, IFC's evaluation of KPCL's ability to meet PS2 obligations was incomplete, which was particularly significant because KPCL did not have an established ESMS, including relevant HR policies and procedures.
218. As a result, IFC's capacity-building efforts were suboptimal. Rather than being planned and implemented proactively to address identified labor-related risks prior to large-scale workforce mobilization, capacity building was introduced reactively, after significant PS2 gaps had already materialized during project implementation. This delayed approach reduced the opportunity to embed robust labor and working conditions management systems early in the project lifecycle, limiting the effectiveness of IFC's supervision in preventing and addressing project gaps. IFC's experience in strengthening the client's capacity to manage OHS illustrates how the ESIA and associated management plans provided a more complete and detailed framework for OHS risk identification, mitigation, and monitoring than they did for labor and working conditions. This foundation enabled IFC to focus its supervision, provide targeted technical support, and achieve measurable improvements in OHS performance over time. By contrast, the limited treatment of labor-related risks in the ESIA meant that similar capacity-building efforts in that area were reactive and less effective, underscoring the importance of comprehensive ESIA coverage across all relevant PS2 requirements.

## 4.2 Weak Coordination Between Disbursement Decisions and Corrective Actions Resulting in Loss of Leverage

219. IFC's supervision, including regular Lenders' IESC monitoring reports, third-party labor consultant assessments, and IFC's own site visits, repeatedly identified significant and in some cases newly emerging PS2 compliance gaps, including wage payment irregularities, noncompliant retrenchment practices, and deficiencies in grievance mechanisms. Since 2017, these findings documented persistent issues and new risks arising during project implementation, such as those linked to COVID-19 workforce disruptions. The identification of these risks provided IFC with timely and detailed information which could be used to increase its leverage over the client by linking the resolution of these issues to disbursement conditions and timelines.
220. Despite repeated documentation of labor-related risks and impacts since 2017, disbursement decisions did not reflect or respond to the status of the corrective actions. In this way, IFC's financial leverage to secure timely compliance was underutilized. It wasn't until the 10th disbursement in July 2020 that IFC sought to link its financial disbursement. In the context of the COVID-19 pandemic, IFC proceeded with the disbursement, deciding to waive resolution of client E&S performance gaps with the client committing to a Supplemental Corrective Action Plan (SCAP) tied to an August 31, 2020 implementation schedule. However, by March 2021 the outstanding PS2 measures were deferred and included in a second SCAP linked to the 11<sup>th</sup> disbursement. The anticipated 11th disbursement was suspended partly because of unresolved labor issues, but by that stage, harm had already occurred during earlier periods, at the height of the construction phase, when disbursements proceeded despite unresolved and newly emerging findings.
221. The disconnect between persistent gaps in client environmental and social (E&S) performance and the use of financial leverage through disbursements has been noted by CAO in other compliance investigation cases.<sup>151</sup> This case provides a further example of a recurring pattern: the lack of a consistent and robust link between E&S risks and disbursement decisions weaken IFC's leverage and diminish its capacity to ensure that corrective actions are implemented in a timely manner.

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<sup>151</sup> Some of these cases include: [Salala 01](#), [RCBC-01](#), and [Masdar Baynouna-01](#).

## 5. Recommendations for IFC Management Action Plan

222. When CAO finds noncompliance and related Harm, the CAO Policy requires that it make recommendations for IFC/MIGA to consider when developing a MAP. Recommendations can include remediation and steps to prevent future instances of noncompliance. In line with this provision, CAO offers project-level recommendations, such as working with the client to remediate project-level noncompliances and related Harm, as well as systemic-level recommendations to prevent future noncompliances by IFC.

### 5.1 Project-Level Recommendations

223. CAO acknowledges that the delay in completing this investigation report affects the type of recommendations CAO proposes. At the time of this investigation's completion, commercial operations were underway, and many of the complainants were no longer working on the project because the workforce was significantly downsized in the transition from the construction to the operation phase. CAO is therefore unable to offer recommendations to address issues that arose during construction. Nonetheless, since there continues to be a commercial relationship with the client, there are actions that should be taken to minimize future labor related harms during operations, as well as facilitate the provision of remedial solutions to former workers.

224. The following recommendations draw on IFC's commitments under the IFC/MIGA Remedial Action Framework (RAF), which emphasizes the use of enabling activities to support clients addressing E&S performance gaps and delivering remedy where harm has occurred.<sup>152</sup> The RAF indicates that enabling activities may include targeted technical assistance, capacity building, facilitation of stakeholder engagement, and the use of financial leverage to ensure timely and effective implementation of corrective measures. In the context of the Karot project, these recommendations are designed to address specific gaps identified in relation to PS2 requirements regarding workers' services and nondiscrimination, freedom of association, and terms of employment. Each recommendation sets out actions that IFC should take in collaboration with the client to strengthen systems, policies, and practices and to ensure that remedial measures are implemented in a manner that is transparent, participatory, and consistent with Good International Industry Practice (GIIP). Complainants should be consulted about relevant actions. IFC should actively monitor progress and provide guidance.

#### 225. Workers' Services and Nondiscrimination

IFC should work with the client to ensure the following:

- All project workers, regardless of nationality, have equitable access to essential services such as accommodations, food, clean drinking water, and safe transportation, in line with the IFC–EBRD *Workers' Accommodation: Processes and Standards*).

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<sup>152</sup> IFC and MIGA, *IFC/MIGA Interim Approach to Remedial Action* (IFC/MIGA, 2025), <https://www.ifc.org/content/dam/ifc/doc/2025/ifc-miga-remedial-action-framework-en.pdf>.

- The project has procedures to investigate and address claims of discrimination promptly and effectively, including clear reporting mechanisms and ensuring that workers feel safe to report any incidents of discrimination without fear of retaliation. This should be supported by a robust monitoring system that includes regular audits and inspections to verify
- compliance with non-discrimination and equal opportunity policies consistent with PS2 and the IFC-EBRD *Workers' Accommodation: Processes and Standards* for all workers in an equitable manner. The auditor should refer in particular to Annex I: Checklist on Worker's Accommodation.<sup>153</sup>

## 226. Freedom of Association

IFC should support the development of an enabling environment that provides for collective bargaining and voluntary negotiations, as appropriate, between the IFC client, its contractors, and workers' organizations, ensuring that all negotiation processes are free from undue influence and that negotiated collective agreements are effectively implemented, in line with PS2 Guidance Note 34-39. IFC should work with the client to ensure its practices are aligned with PS2 by:

- Providing capacity-building and awareness-raising programs for workers, employers, security personnel, and relevant authorities on their rights and responsibilities, ensuring workers are aware of their rights to form and join unions, and are adequately protected against acts of anti-union discrimination, retaliation, and acts of interference.
- Ensuring union representatives have reasonable, non-discriminatory access to workers on site for the proper exercise of their functions without undue barriers, with proper consideration of the security needs and effective functioning of the project, and based on agreements between the client and workers' organizations, if feasible. Necessary arrangements (e.g. specified locations to ensure safety and privacy) should be provided to enable union representatives to communicate freely with workers without interference from the project or the presence of security guards.

## 227. Terms of Employment

IFC should work with the client to establish and support implementation of policies and procedures to ensure that:

- Termination of employment is carried out in accordance with all applicable agreements and law, including the provision of prior notice and written justification of dismissal, entitlement of representative assistance to a worker regarding termination, and provision of severance payments as may be required; and that outstanding wages, benefits and back pay are settled before termination.
- There are clear communication channels with workers to address concerns related to terms of employment. This should include regular meetings with worker representatives and timely updates on any changes affecting workers, as well as effective monitoring of the project grievance mechanism.

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<sup>153</sup> IFC-EBRD, *Worker's Accommodation: Processes and Standards*. Annex I available here: <https://officecao.org/3GhDzUH>.

## 228. **Enhancing Grievance Mechanism for Former Workers**

IFC should work with the client and other responsible parties (e.g., sub-contractors) to expand the existing project grievance mechanism to enable former Karot construction and operations workers to raise material concerns about their period of employment.

- The mechanism should ensure prompt handling of grievances received, in particular severance, overtime, and benefits pay, and the provision of remedy as appropriate.
- IFC should closely monitor the disclosure and implementation of the mechanism, in consultation with the complainants, to verify the effectiveness of the mechanism in addressing grievances.
- Where IFC finds limitations to achieving remedial action through the client or other responsible parties, IFC should support remedial action through the enabling activities articulated in IFC's RAF.

In order to evidence implementation of these recommendations, IFC should commission a third-party labor consultant after 18 months to assess PS2 compliance.

## 5.2 Systemic-Level Recommendations

229. The following recommendations are designed to address the underlying factors that contributed to IFC's noncompliance as identified in this investigation. As set out in Section 4 of this report, CAO finds that IFC's environmental and social due diligence did not adequately recognize or integrate contextual labor-related risks into project risk assessment, contributing to an incomplete capacity assessment and insufficient proactive capacity building for the client and its contractors. CAO also finds that weak coordination between supervision findings and disbursement decisions limited IFC's ability to use its leverage to secure timely resolution of high-risk labor issues. These recommendations aim to strengthen IFC's internal procedures, controls, and accountability processes to prevent the recurrence of such systemic gaps. These recommendations build on recent updates to IFC's Environmental and Social Review Procedures (ESRP) and are aligned with the IFC Remedial Action Framework by emphasizing the use of leverage to achieve timely compliance with Performance Standards.<sup>154</sup>

### 230. **Strengthen Internal Guidance to strengthen labor lens of contextual risk analysis and capacity building**

IFC should build on recent updates to its Environmental and Social Review Procedures (ESRP), which recognize the importance of assessing contextual risks, by further strengthening internal guidance on the integration of national labor context into project risk assessments. This should include:

- Developing detailed internal guidelines for E&S staff on how to systematically identify and analyze country-specific labor risks, drawing on authoritative sources such as ILO country

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<sup>154</sup> IFC, *Environmental and Social Review Procedures Manual* (IFC, 2025), <https://officecao.org/4oPQMou>.

profiles, ITUC Global Rights Index, and national labor law enforcement data.

- Enhancing the scope/focus of labor risk analysis of discrimination, freedom of association, and terms of employment during IFC due diligence.
- Designing and delivering targeted internal training for IFC investment and E&S staff to operationalize this expanded focus, equipping them with the tools and methodologies needed to assess both OHS and broader labor-related risks in diverse country contexts.
- Using the results of this enhanced contextual and labor risk analysis to inform early capacity assessments of clients and key contractors, and to design proactive capacity-building programs before large-scale workforce mobilization. By embedding this expanded labor risk focus into IFC's internal procedures and staff training, IFC will be better positioned to anticipate and mitigate systemic labor-related risks, ensure comprehensive PS2 compliance planning from the outset, and reduce the likelihood of persistent gaps during supervision.

### 231. **Strengthen Linkages Between Supervision Findings, Disbursement Conditions, and Internal Accountability**

IFC should build on recent updates to its Environmental and Social Review Procedures (ESRP) by strengthening its coordination between supervision findings and disbursement decisions for timely resolutions of documented noncompliances with the PS, consistent with the Remedial Action Framework (RAF) objective of effective application of leverage. Key measures should include:

#### Timely Linkage<sup>155</sup>

- Require use of financial leverage from first identification of persistent or emerging PS performance gaps, to avoid long periods of repeated findings.

#### Waivers and Extensions<sup>156</sup>

- Make waivers or extensions for unresolved high-risk issues exceptional and justified only under defined circumstances.

Require each waiver/extension to document its rationale, supporting evidence, a formal risk assessment and measures to mitigate the risk of any loss of leverage through the disbursement and ensure implementation of corrective actions. By embedding these measures into IFC's internal systems, IFC can ensure that disbursement decisions are consistent with RAF commitments for enhanced IFC leverage to ensure successful implementation of PS in IFC operations and achieve timely resolution of high-risk issues and enhance the effectiveness of its supervision.

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<sup>155</sup> Related CAO cases that have identified persistent PS gaps despite ongoing disbursements include, [Jordan: Masdar Baynouna-01/East Amman](#), and [Liberia: Salala Rubber Corporation-01/Margibi & Bong Counties](#)

<sup>156</sup> [Georgia: AGL-01/Makhalakidzebi](#) is another CAO case where there have been disbursement waivers provided despite outstanding E&S issues.

## 232. **Build Client Capacity on PS2 compliance**

IFC should develop a capacity building program for clients in Pakistan specifically on freedom of association and collective bargaining focused on national laws, labor and working conditions, and OSH requirements, as well as Project Grievance Redress Mechanisms for E&S staff and relevant stakeholders in order to ensure compliance with PS2. This should be developed in consultation with competent labor organizations and trade unions.<sup>157</sup>

## 6. Conclusion and Next Steps

233. This report finds IFC noncompliance in relation to several of the complaint issues raised by workers and unions associated with the Karot hydropower project in Pakistan. Based on the findings of this compliance investigation, and in accordance with the CAO Policy, IFC will prepare for Board approval a Management Action Plan to address the findings in this compliance investigation report, following consultation with the client and complainants. CAO's compliance function will monitor the effective implementation of the IFC Management Action Plan.
234. This report includes the above recommendations to IFC/MIGA on how to address CAO's noncompliance findings and related Harm through project and systemic-level corrective actions that may provide some redress for adversely affected complainants.
235. Once the IFC Management Action Plan is approved by the IFC Board, CAO publishes the Compliance Investigation Report, Management Response, and Management Action Plan on the CAO website at <https://www.cao-ombudsman.org/cases>.

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<sup>157</sup> IFC's aim is to annually invest \$2 billion a year in Pakistan, prioritizing sectors such as infrastructure, energy and water, agriculture and manufacturing. Freedom of association is a relevant risk in these sectors. More information is available in the ILO Decent Work Country Programme for Pakistan (2023-27): <https://officecao.org/4hGxL5K>, IFC's 2025 press release: <https://officecao.org/3WEpQfL>, and WBG's 2025 news: <https://officecao.org/4otmEzS>.

## Annex A: Freedom of Association in Pakistan

### 1. Legal Framework Governing Freedom of Association in Pakistan

#### a. Restrictions to Trade Union Pluralism

One of the significant issues related to trade union pluralism in Punjab is the minimum membership requirement for the registration of new trade unions. According to section 8(2)(b) of the 2012 Industrial Relations Act (IRA) and section 6(2)(b) of the Punjab Industrial Relations Act (PIRA), if there are already two or more registered unions in an establishment, a new trade union must have at least 20 percent of the workers as members to be eligible for registration.<sup>158</sup>

The government of Punjab has defended this requirement, arguing that it prevents the proliferation of ineffective pocket unions and ensures the efficacy of trade unions, especially in the presence of a certified collective bargaining agent (CBA) union that typically enjoys the support of more than 50 percent of the workers.

The debate over trade union pluralism and minimum membership requirements in Punjab and other provinces underscores the tension between ensuring workers' rights to freely establish organizations and preventing the fragmentation of the labor movement. While the government's concerns about ineffective unions are valid, it is essential to recognize that the right to establish organizations of one's choosing is a fundamental principle that should not be unduly restricted.

The Committee on Freedom of Association has emphasized that trade union pluralism must remain possible in all cases, allowing workers to change unions or establish new ones for reasons of independence, effectiveness, or ideological choice. Therefore, it is crucial for the government of Pakistan to ensure that no distinction is made between the first two or more registered trade unions and newly created ones regarding minimum membership requirements.<sup>159</sup>

#### b. Collective bargaining representation

Sections 20(b) and (c), 22, 33, 35, and 65(1) of the IRA, along with the PIRA, delineate the specific rights and privileges granted to these collective bargaining agents. These privileges include the authority to represent workers in various proceedings and access to check-off facilities.<sup>160</sup>

The intention behind collective bargaining agents is to streamline representation and ensure effective collective bargaining. However, the exclusive nature of these rights can lead to an imbalance in the representation of workers' interests. Smaller or less representative unions

<sup>158</sup> Punjab Labour Policy 2018. Available here: <https://officecao.org/3R8LLci>.

<sup>159</sup> ILO, Committee on Freedom of Association (CFA). Available here: <https://officecao.org/4gWIRn3> and <https://officecao.org/4o3xjkb>

<sup>160</sup> ITUC, freedom of association. Available here: <https://officecao.org/4iZ6yLD>

may find themselves at a disadvantage, unable to fully participate in proceedings or access the same facilities as their more dominant counterparts.

### **c. Restrictions on trade unions' right to organize their administration**

Workers' right to elect representatives and independently manage their unions is a core principle of unionism. However, according to ITUC,<sup>161</sup> Pakistan has significant legal restrictions in place that could impede these rights. One of the primary constraints is the limitation imposed on workers' right to join the trade union of their choosing. According to section 3(a) of the IRA, no worker is entitled to be a member of more than one trade union. This restriction is mirrored in the PIRA, when read in conjunction with sections 6(2)(a).

Furthermore, article 8(2) of the IRA stipulates that a trade union cannot be established unless all its members are workers engaged or employed in the industry with which the trade union is connected.

### **d. Barriers to the recognition of collective bargaining agents**

The requirements regarding trade unions' representation and the minimum number of members necessary for engaging in collective bargaining can sometimes be excessively stringent, thereby impeding the effective functioning of trade unions. According to section 19(1) of the IRA and section 24(1) of the PIRA, a trade union must meet specific membership thresholds to be eligible for collective bargaining.

These sections stipulate that if a trade union is the sole trade union within an establishment, group of establishments, or industry (as specified in the PIRA), it must have at least one-third of the employees as its members to engage in collective bargaining. This requirement ensures that the union has a significant level of support among the workforce before it can negotiate on their behalf. According to ITUC, this threshold may pose substantial challenges for trade unions, particularly in larger establishments or industries with diverse and dispersed workforces.

### **e. Restrictions on the principle of free and voluntary bargaining**

Sections 36 and 37 of the IRA and the PIRA provide for the possibility of compulsory conciliation during the collective bargaining process. This means that when disputes arise, the law mandates that the parties engage in conciliation efforts to resolve their differences. The aim of compulsory conciliation is to encourage dialogue and negotiation, thereby preventing disputes from escalating into industrial action or prolonged conflict.

The conciliator, who plays a crucial role in this process, is appointed either directly by the government (as per section 35 of the PIRA) or by the workers' commission (as per section 53 of the IRA). This commission is composed of ten members appointed by the government, with one member representing employers and another representing trade unions. This composition raises questions about the balance of representation and the potential influence of government interests in the conciliation process.

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<sup>161</sup> For more on freedom of association, see ITUC's website at: <https://officecao.org/4iZ6yLD>.

## 2. Ratification of International Labor Organization Conventions and Observations

### a. Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)

#### i. Observation by Committee of Experts on the Application of Conventions and Recommendations (CEACR), 2012

The Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87), ratified by Pakistan in 1951, is a fundamental ILO convention that guarantees workers and employers the right to establish and join organizations of their own choosing without prior authorization. CEACR<sup>162</sup> reviewed Pakistan's compliance with this convention in its 2012 observation, published during the 102<sup>nd</sup> International Labor Conference session in 2013.

In Pakistan, the IRA and the PIRA restrict the registration of trade unions to those engaged in the same industry and prohibit workers from being members of more than one trade union. However, the CEACR's observation emphasized the importance of allowing workers with multiple occupations to join corresponding unions. The acts also require new trade unions to have at least 20 percent of the workers as members if there are already two or more registered unions. The CEACR considered this requirement contrary to the convention and asked the Pakistan government to amend the legislation.

#### ii. Observation by the CEACR, 2022

In 2022, the ILO observed that Pakistan had made significant strides in ratifying fundamental conventions related to labor rights, including those concerning freedom of association and the right to collective bargaining.<sup>163</sup> However, challenges remained in fully implementing these rights. The ILO noted that while the legal framework provided for the right to form and join trade unions, there were still issues related to the effective recognition and protection of these rights in practice. The observations highlighted the need for stronger enforcement mechanisms and the elimination of barriers that hinder the full exercise of freedom of association and collective bargaining rights.

### b. Right to Organize and Collective Bargaining Convention, 1949 (No. 98)

#### i. Observation by CEACR, 2012

The Right to Organize and Collective Bargaining Convention, 1949 (No. 98) is a fundamental ILO convention that aims to protect workers' rights to organize and engage in collective bargaining. The CEACR regularly reviews the implementation of this convention by member states.

The CEACR emphasized the importance of protecting workers against anti-union discrimination,<sup>164</sup> including ensuring that workers are not

<sup>162</sup> More information on CEACR can be found at: <https://officecao.org/4lv97FU>

<sup>163</sup> See ILO NORMLEX at: <https://officecao.org/3TUGTZg>

<sup>164</sup> CEACR, 2022 Observation on Rights to Organize and Collective Bargaining, Committee on Freedom of Association (CFA). Available here: <https://officecao.org/4o3xjkb>

dismissed, demoted, or otherwise discriminated against because of their union activities. The observation noted that, in some countries, including Pakistan, there were reports of workers facing discrimination and retaliation for their involvement in trade unions.

The convention requires that workers' organizations be protected against acts of interference by employers or employers' organizations, including any acts designed to promote the establishment of workers' organizations under the domination of employers or to support workers' organizations by financial or other means. The CEACR observed that, in some instances, employers exerted undue influence over workers' organizations, undermining their independence.

The CEACR highlighted the need for effective measures to promote collective bargaining, including creating a legal framework that facilitates voluntary negotiations between employers and workers' organizations. The observation noted that in some countries, including Pakistan, the legal framework for collective bargaining was inadequate, leading to challenges in the negotiation process.

The CEACR identified several legislative and practical challenges, including restrictive labor laws, lack of enforcement mechanisms, and insufficient protection for workers engaged in collective bargaining. The observation called for legislative reforms and stronger enforcement measures to address these issues.

The CEACR emphasized the importance of social dialogue that involves consultations and negotiations between governments, employers, and workers' organizations to address labor-related issues. The observation noted that effective social dialogue mechanisms were lacking in some countries, including Pakistan, and called for their establishment and strengthening.

## **ii. Observation by CEACR, 2022**

Regarding collective bargaining in Pakistan, the Committee notes that under section 19 of the IRA and section 24(1) of the PIRA, a trade union must have at least one-third of the employees as members to engage in collective bargaining if it is the only union at the establishment or in the industry. Additionally, the Committee also highlights the lack of information provided by the government on the election of workers' representatives to work councils and the status of collective bargaining agreements, and urges the government to address these issues in its next report.

# Annex B: IFC Performance Standards Requirements Relevant to the Complaint

## Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts

### Environmental and Social Assessment and Management System

- PS1, para. 5: “The client, in coordination with other responsible government agencies and third parties as appropriate, will conduct a process of environmental and social assessment, and establish and maintain an ESMS appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts.”
- PS1, para. 11: “Identification of Risks and Impacts: The risks and impacts identification process will be based on recent environmental and social baseline data at an appropriate level of detail. The process will consider all relevant environmental and social risks and impacts of the Project, including the issues identified in Performance Standards 2 through 8, and those who are likely to be affected by such risks and impacts.”
- GN1, para. 23. “For certain projects, and particularly for greenfield investments and projects (including, but not limited to, major expansion or transformation-conversion activities) involving specifically identified physical elements, aspects and facilities that are likely to generate potentially significant adverse environmental and social risks and impacts, the client should conduct a comprehensive full-scale ESIA. The key process elements of an ESIA generally consist of (i) initial screening of the project and scoping of the assessment process; (ii) examination of alternatives; (iii) stakeholder identification (focusing on those directly affected) and gathering of environmental and social baseline data; (iv) impact identification, prediction, and analysis; (v) generation of mitigation or management measures and actions; (vi) significance of impacts and evaluation of residual impacts; and (vii) documentation of the assessment process (i.e., ESIA report). The breadth, depth and type of analysis should be proportionate to the nature and scale of the proposed project’s potential impacts as identified during the course of the assessment process. The ESIA must conform to the requirements of the host country’s environmental assessment laws and regulations, including the relevant disclosure of information and public consultation requirements, and should be developed following principles of good international industry practice (see Bibliography for further guidance).”

## Performance Standard 2: Labor and Working Conditions

### Working Conditions and Terms of Employment

- PS2, para. 10: “Where the client is a party to a collective bargaining agreement with a workers’ organization, such agreement will be respected. Where such agreements do not exist, or do not address working conditions and terms of employment, the client will provide reasonable working conditions and terms of employment.”
- PS2, para. 12: “Where accommodation services are provided to workers covered by the scope of this Performance Standard, the client will put in place and implement policies on the quality and management of the accommodation and provision of basic services. The accommodation services will be provided in a manner consistent with the principles of non-discrimination and equal opportunity. Workers’ accommodation arrangements should not restrict workers’ freedom of movement or of association.”

### Workers’ Organizations

- PS2, para. 13: “In countries where national law recognizes workers’ rights to form and to join workers’ organizations of their choosing without interference and to bargain collectively, the client will comply with national law. Where national law substantially restricts workers’ organizations, the client will not restrict

workers from developing alternative mechanisms to express their grievances and protect their rights regarding working conditions and terms of employment. The client should not seek to influence or control these mechanisms.”

- PS2, para. 14: “In either case described in paragraph 13 of this Performance Standard, and where national law is silent, the client will not discourage workers from electing worker representatives, forming or joining workers’ organizations of their choosing, or from bargaining collectively, and will not discriminate or retaliate against workers who participate, or seek to participate, in such organizations and collective bargaining. The client will engage with such workers’ representatives and workers’ organizations, and provide them with information needed for meaningful negotiation in a timely manner. Workers’ organizations are expected to fairly represent the workers in the workforce.”

#### Non-Discrimination and Equal Opportunity

- PS2, para. 15: “The client will not make employment decisions on the basis of personal characteristics<sup>165</sup> unrelated to inherent job requirements. The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, such as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement, and disciplinary practices. The client will take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women. The principles of non-discrimination apply to migrant workers.”
- PS2, para. 16: “In countries where national law provides for non-discrimination in employment, the client will comply with national law. When national laws are silent on non-discrimination in employment, the client will meet this Performance Standard. In circumstances where national law is inconsistent with this Performance Standard, the client is encouraged to carry out its operations consistent with the intent of paragraph 15 above without contravening applicable laws.”
- PS2, para. 17: “Special measures of protection or assistance to remedy past discrimination or selection for a particular job based on the inherent requirements of the job will not be deemed as discrimination, provided they are consistent with national law.”

#### Retrenchment

- PS2, para. 18: “Prior to implementing any collective dismissals, the client will carry out an analysis of alternatives to retrenchment. If the analysis does not identify viable alternatives to retrenchment, a retrenchment plan will be developed and implemented to reduce the adverse impacts of retrenchment on workers. The retrenchment plan will be based on the principle of non-discrimination and will reflect the client’s consultation with workers, their organizations, and, where appropriate, the government, and comply with collective bargaining agreements if they exist. The client will comply with all legal and contractual requirements related to notification of public authorities, and provision of information to, and consultation with workers and their organizations.”
- PS2, para. 19: “The client should ensure that all workers receive notice of dismissal and severance payments mandated by law and collective agreements in a timely manner. All outstanding back pay and social security benefits and pension contributions and benefits will be paid (i) on or before termination of the working relationship to the workers, (ii) where appropriate, for the benefit of the workers, or (iii) payment will be made in accordance with a timeline agreed through a collective agreement. Where payments are made for the benefit of workers, workers will be provided with evidence of such payments.”

#### Grievance Mechanism

- PS2, para. 20: “The client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise workplace concerns. The

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<sup>165</sup> Such as gender, race, nationality, ethnic, social and indigenous origin, religion or belief, disability, age, or sexual orientation.

client will inform the workers of the grievance mechanism at the time of recruitment and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides timely feedback to those concerned, without any retribution. The mechanism should also allow for anonymous complaints to be raised and addressed. The mechanism should not impede access to other judicial or administrative remedies that might be available under the law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.”

#### Guidance Note 2: Labor and Working Conditions

- GN2, para. 21: “Working conditions, as used in Performance Standard 2, refer to conditions in the workplace and treatment of workers. Conditions in the workplace include the physical environment, health, and safety precautions, and access to sanitary facilities. Treatment of workers includes disciplinary practices, reasons and process for termination of workers and respect for the worker’s personal dignity (such as refraining from physical punishment or abusive language).”
- GN2, para. 22: “Terms of employment include wages and benefits, wage deductions, hours of work, breaks, rest days, overtime arrangements, and overtime compensation, medical insurance, pension, and leave for illness, vacation, maternity, or holiday.”
- GN2, para. 25: “Where collective bargaining agreements do not exist, or do not address particular working conditions and terms of employment, clients should provide reasonable working conditions and terms of employment that, at a minimum, comply with national law. Most countries have extensive legal frameworks covering many working conditions and terms of employment, such as minimum wage, maximum hours, payments for overtime work, minimum leave time for vacation, holiday, illness, injury, maternity, and health and safety protections. However, sometimes these legal frameworks do not reflect the prevailing market conditions for the industry, sector, or geography of the client’s business. The client should therefore consider whether the terms and conditions provided to workers are in line with industry, sector or geographical norms, and would normally be expected to provide terms and conditions not less favorable than those provided by comparable employers in the country concerned.”
- GN2, para. 26: “If clients are working in countries where comparable employers do not exist, they should provide wages, benefits and conditions of work consistent with the legal framework.”
- GN2, para. 39: “In some countries...workers’ organizations may exist but are controlled or subject to approval by the state...[In such circumstances,] the client should engage with workers to address issues relating to their working conditions and terms of employment. Methods to enable alternative mechanisms include but are not limited to recognizing worker committees and allowing workers to choose their own representatives for dialogue and negotiation over terms and conditions of employment with the employer in a manner that does not contravene national law.”
- In the PS2 and the GN2, IFC specifically refers to the ILO core conventions, including C87 (freedom of association and protection of the right to organize) and C98 (right to organize and collective bargaining). Pakistan has ratified both C87 and C98.

#### **Performance Standard 4: Community Health, Safety, and Security**

##### Security Personnel

- PS4, para. 12: “When the client retains direct or contracted workers to provide security to safeguard its personnel and property, it will assess risks posed by its security arrangements to those within and outside the Project site. In making such arrangements, the client will be guided by the principles of proportionality and good international practice in relation to hiring, rules of conduct, training, equipping, and monitoring of such workers, and by applicable

law. The client will make reasonable inquiries to ensure that those providing security are not implicated in past abuses; will train them adequately in the use of force (and where applicable, firearms), and appropriate conduct toward workers and Affected Communities; and require them to act within the applicable law. The client will not sanction any use of force except when used for preventive and defensive purposes in proportion to the nature and extent of the threat. The client will provide a grievance mechanism for Affected Communities to express concerns about the security arrangements and acts of security personnel.”

- PS4, para. 13: “The client will assess and document risks arising from the Project’s use of government security personnel deployed to provide security services. The client will seek to ensure that security personnel will act in a manner consistent with paragraph 12 above and encourage the relevant public authorities to disclose the security arrangements for the client’s facilities to the public, subject to overriding security concerns.”
- PS4, para. 14: “The client will consider and, where appropriate, investigate all allegations of unlawful or abusive acts of security personnel, take action (or urge appropriate parties to take action) to prevent recurrence, and report unlawful and abusive acts to public authorities.

## **Pakistan National Law**

### Punjab Industrial and Commercial Employment (Standing Orders) Ordinance, 1968

- §11. Stoppage of work [incl. for “epidemics...or other cause beyond his control”]
- §12. Termination of employment: [one month notice; no termination, retrenchment, discharge or dismissal from service except by written order stating reason for action taken]
- §13. Procedure for retrenchment [last in, first out]
- §14. Re-employment of retrenched workmen
- §14-A. Special provision for construction workers
- §16. Eviction from residential accommodation
- §19. Certificate of termination of service
- §20. Liability of employer: The employer of the industrial and commercial establishment shall personally be held responsible for the proper and faithful observance of the Standing Orders, whether or not the workmen of such establishment are employed through contractors.

### Punjab Minimum Wage Ordinance, Payment of Wages Act (Azad Jammu Kashmir and Punjab)

- Minimum wage is established for unskilled, semi-skilled, skilled, and highly skilled workers.
- Employers should make contributions to social security.
- Deductions are permitted for fines, absence, loss/damage of entrusted items, amenities or services provided, or income tax and to recover advance.

## Annex C: CAO Findings of Noncompliance, Related Harm, and Recommendations

In accordance with CAO Policy, IFC Management is required to prepare a Management Response in response to this compliance investigation.<sup>166</sup> For the purposes of addressing CAO findings of noncompliance and related Harm, if any, the Management Response will include, for Board approval, a Management Action Plan (MAP) comprising time-bound remedial actions proposed by Management.<sup>167</sup> Alternatively, the Management Report should include a reasoned response to CAO's findings or recommendations regarding noncompliance or related Harm that IFC is unable to address in the MAP.<sup>168</sup> If the Board approves a MAP, CAO monitoring will verify effective implementation of the actions it contains.<sup>169</sup> CAO compliance monitoring will not consider noncompliance findings for which there is no corresponding corrective action in the MAP.<sup>170</sup>

CAO compliance findings and assessment of related Harm are presented in Table C.1. CAO will add and complete a second column during its compliance monitoring of this case based on the MAP approved by the IFC Board.

In Table C.2, in accordance with CAO Policy,<sup>171</sup> CAO makes recommendations to address CAO's findings of noncompliance and related Harm for IFC to consider when developing its MAP. These recommendations relate to the remediation of project-level noncompliance and related Harm, as well as steps needed to prevent future noncompliance.

**Table C.1: CAO Findings of Compliance, Noncompliance and Related Harm**

CAO Findings of Compliance, Noncompliance and Related Harm
IFC Due Diligence for CSAIL Equity:
CAO finds that IFC correctly categorized the E&S risk of its CSAIL investment according to the Sustainability Policy (para. 40). However, <i>CAO finds that IFC's pre-investment ESDD did not meet the standard set out in paragraph 26 of the Sustainability Policy that such diligence be commensurate with the nature, scale, and stage of the business activity or with the level of risk and potential impacts as they relate to labor issues under PS2</i> , for the following reasons: <ul style="list-style-type: none"><li>• IFC did not perform an in-depth review of the national context pertaining to PS 2 (Labor and Working Conditions) despite</li></ul>

<sup>166</sup> CAO Policy, para 130.

<sup>167</sup> Ibid., para. 131.

<sup>168</sup> Ibid., para. 132.

<sup>169</sup> Ibid., para. 140.

<sup>170</sup> Ibid., para. 141.

<sup>171</sup> Ibid., para. 113.

pertinent and credible indications of significant PS2-related risks in Pakistan.

- IFC did not adequately assess the PS2-related policies or practices of CSAIL’s parent companies, which the client was expected to rely upon until pending establishment of its own E&S framework.
- IFC did not adequately assess CSAIL’s parent companies’ implementation experience with PS2-related issues on other projects, an important indicator of likely performance at Karot.

*CAO also finds that IFC’s ESDD was insufficient to meet requirements under the IFC Sustainability Policy (para. 22), that IFC only finance investment activities expected to meet the requirements of the Performance Standards within a reasonable period of time.*

IFC Due Diligence for KPCL Loan:

*CAO finds that IFC correctly categorized the E&S risk of its investment as high (Category A), according to the Sustainability Policy (para. 40). However, CAO finds that IFC’s pre-investment ESDD was not commensurate with the nature, scale, and stage of the business activity or with the level of risk and impacts (Sustainability Policy para. 26).*

Three overarching deficiencies include: (1) IFC did not conduct a substantive review of Pakistan’s labor context despite known PS2 risks; (2) IFC acknowledged that management of the Project’s labor aspects would rely on CSAIL’s and CTGI’s management systems, however IFC did not verify their adequacy for the project’s scale and context; and 3) IFC’s ESAP for the KPCL loan omitted targeted measures to address high-risk labor issues such as freedom of association and terms of employment.

#### Complaint Issue 1. Discrimination Against Pakistani Workers

*While recognizing IFC’s efforts to address persistent issues regarding accommodations, CAO finds that IFC fell short of its obligations under the Sustainability Policy (paras. 7 and 45) to supervise its client to provide fair working conditions, nondiscrimination, and equal opportunity in the workplace in accordance with PS2 (paras. 12 and 15).*

In this case, although IFC became aware of potential discriminatory accommodation conditions early in its supervision phase and include a client action to assess this issue in the first SCAP – gaps in this assessment were not identified by IFC. IFC’s second SCAP did not include a specific action to address material disparities based on worker nationality. An 11th disbursement was withheld partly because of unresolved labor issues. This delay — five years into supervision and project construction — reduced IFC’s leverage to secure early corrective action and allowed potentially discriminatory practices to persist.

Related Harm:

*CAO concludes that there are indications of Harm to complainants related to IFC’s noncompliance. Persistent reports of unequal treatment of local Pakistani workers in the provision of accommodations at the hydropower site likely had an adverse social impact on the affected individuals. Specific concerns about safety, services, and accommodation standards are linked to clear reported differences in the treatment of Pakistani and non-Pakistani workers. Irregularities were consistently identified, including overcrowding of workers per room, differences in room ventilation provisions, higher food costs, and differential treatment related to transportation,*

laundry services, dining areas, and sanitation/fungal contamination within the facilities. CAO notes that IFC became aware of reports of differences in the quality of the accommodations and in worker contract entitlements in 2017. In 2021, five years after IFC supervision began, IFC Labor Consultant B reported Pakistani worker statements about unhygienic and unsuitable accommodations, and differential treatment between Pakistani and non-Pakistani workers with regard to facilities and transportation – all issues that were reported in earlier IFC supervision documentation.

In April 2022, during the CAO mission, KPCL noted that issues around room accommodations were mainly a concern prior to the COVID-19 pandemic, particularly during peak workforce periods, when 8-10 Pakistani workers sometimes shared a room. These conditions improved in time, with the number of occupants per room reduced to four. An internal investigation by TGDC attributed the overcrowded rooms to cultural preferences and mutual consent among Pakistani workers who wanted to share a room. Nonetheless, for a significant period of the project construction phase, the complainants reported and IFC's supervision documentation indicates the accommodations of and services provided to Pakistani workers were inferior to those of non-Pakistani workers.

#### Complaint Issue 2. Freedom of Association

*CAO finds that IFC fell short of its obligations under the Sustainability Policy (paras. 7 and 45) to adequately collect detailed evidence of its client's implementation of FOA requirements within a reasonable amount of time and accordingly, lacked a supervisory basis to ensure its client did not dissuade, discourage, discriminate, or retaliate against workers for organizing, engaging in collective bargaining, and engaging with workers' representatives in accordance with PS2 (paras. 13 and 14).*

CAO found no evidence in IFC's supervision records from December 2016 to February 2019 that IFC collected or documented project-related information on trade unions and freedom of association. In 2019 and 2020, IFC monitored FOA issues as raised by the ALU and the BWI and conducted its own assessment of these issues in 2021. IFC's 2021 assessment lacked detailed information on security practices at the project site in relation to workers' freedom of association, including potential differences in treatment of union and nonunion employees. The review did not examine whether the security measures may have deterred union activity or contributed to differential treatment of union versus nonunion workers. Without such information, it was not possible for IFC to effectively evaluate PS2 noncompliance risks and impacts regarding union discrimination.

In addition, CAO finds that IFC effectively supervised the ALU's claims that KPCL interfered in its union activities by establishing and supporting the SHU, including by commissioning a consultant to review this issue.

#### Related Harm:

*IFC's supervision gaps — specifically, the failure to collect timely and detailed information on the ALU's registration delays, site access restrictions, and security-related impacts on FOA — limited its ability to ensure the client met PS2 obligations to respect workers' rights to organize and bargain collectively. Taken together, these shortcomings lead CAO to conclude that there are indications of Harm to the complainants. While CAO notes that KPCL challenged the ALU's registration, delaying it for over a year, the available information*

does not allow CAO to determine whether this was impermissible interference or a legitimate legal challenge.

CAO received multiple testimonies from union representatives and workers describing forced resignations and the large-scale presence of military forces at the project site. While CAO was not able to independently verify these accounts, taken together, they indicate conditions that could create an intimidating atmosphere for union members and potentially deter participation in union activities. The access restrictions for the ALU's representatives to the Karot project site since 2020 and the absence of a finalized collective bargaining agreement throughout the construction period, during which the workforce peaked at approximately 4,400 Pakistani workers, significantly impaired the ALU's ability to represent workers. In this context, CAO notes that eight years have passed since the ALU applied to represent workers, and the collective bargaining agreement (CBA) remains pending. Under these conditions, there was no agreed mechanism between the employer and representatives of workers' organizations for the collective negotiation of workers' terms and conditions of employment. In such circumstances, these terms are typically set by the employer, subject to applicable law, rather than through bargaining with worker representatives. This situation likely reduced opportunities to address worker concerns on wages, benefits, and working conditions collectively, and may have had adverse social impacts on fairness, equity, and the protection of workers' rights in practice.

### Complaint Issue 3. Occupational Health and Safety

*CAO finds that IFC demonstrated a structured and comprehensive approach to supervising PPE provision at the Karot project site, consistent with its obligations under the Sustainability Policy.* IFC's supervision program was extensive, evolving over time to address identified OHS risks. It enabled effective monitoring of client and EPC contractor compliance with relevant Performance Standards. In addition, CAO finds that the client's response to COVID-19 risks was rapid and aligned with Good International Industry Practice (GIIP) and IFC's Interim Advice. IFC's supervision also identified and addressed breaches of COVID-19 protocols by workers.

#### No Related Harm:

*While CAO acknowledges potential harm experienced by the complainants, it concludes that this harm is not related to IFC noncompliance with the Sustainability Policy because IFC took reasonable and timely steps—consistent with its policy obligations—to identify, address, and monitor PPE-related risks.*

### Complaint Issue 4. Terms of Employment and Retrenchment

*CAO finds that IFC supervision did not achieve timely resolution of persistent and well-documented allegations of PS2 performance gaps in relation to the adoption and implementation of HR policies and procedures, and retrenchment (PS2 paras. 8, 9, and 19) as expected by the Sustainability Policy (paras. 22 and 45).*

A review of IFC's supervision documentation indicates that gaps persisted in the project implementation of PS2 terms of employment requirements during the construction period (2016-22). In particular, it notes issues with on-time salary payments, overtime payments, leave payments, wage deductions, reasonable working hours, formal contracts, and no notice terminations.

As these issues arose, IFC sought to address each instance. However, IFC's supervision documentation records mixed success in

addressing the concerns, including some that were cited multiple times during the construction period, indicating systemic gaps in the project's HR policies and procedures and their implementation rather than isolated incidents.

**Related Harm:**

*CAO concludes that complainants experienced Harm related to IFC's noncompliance with its supervision obligations under the Sustainability Policy in terms of wages, benefits, and retrenchment conditions.* At various points, IFC's supervision reports document persistent issues related to terms of employment including on-time salary pay, wage deductions related to PPE charges, leave and overtime payments, reasonable working hours, and no notice terminations. CAO gathered consistent testimonies of unfair dismissal and coerced resignations during its investigation, with eight union workers asserting that they had been forced to resign or were dismissed without a clear reason, given minimal termination benefits and not provided a copy of their termination letters.

Gaps in the HR policies and procedures of the client and the EPC to address these issues in a manner consistent with PS2 requirements continued during the course of IFC's supervision, and IFC did not take sufficient steps to remedy the situation in a timely manner.

**Complaint Issue 5. Workers' Grievance Mechanism**

*CAO finds that IFC adequately supervised the client's application of PS2 requirements on operating a Workers' Grievance Mechanism.*

IFC's sustained and structured supervision of the grievance mechanism—through early identification of deficiencies, continuous monitoring by the Lenders' IESC, and targeted corrective actions—such as inclusion in the 2021 SCAP—was effective in demonstrating eventual compliance with PS2 requirements. However, these improvements were gradual, occurring only after several years of the mechanism not functioning effectively—from the workers' perspective. This lag reduced the mechanism's ability to serve its intended purpose during the peak construction period, when the timely resolution of grievances was most critical. This case underscores that while IFC's approach ultimately delivered results, earlier and more decisive intervention could have mitigated the period of limited worker access and trust, thereby enhancing compliance outcomes and worker protection.

**No Related Harm:**

*CAO acknowledges the validity of the complainants' concerns and the impact these issues had on them; however, it determines that the harm identified is not attributable to IFC noncompliance under the requirements of the Sustainability Policy.*

Although IFC took appropriate measures to ensure PS2 compliance, as detailed above, CAO observes that the project, especially in the early years, did not provide an effective grievance mechanism from the workers' perspective. For several years, many workers were unaware of the mechanism, feared reprisals for raising complaints, and/or perceived that their grievances were ignored by the IFC client. As a result, in the view of the workers and complainants view, there was no reliable and accessible way for them to raise concerns about and seek resolution of the many labor-related issues occurring at the hydropower site.

**Table C.2: CAO Project and Systemic Level Recommendations**

<b>Project-level Recommendations</b>
<p><b>Workers' Services and Nondiscrimination</b></p> <p>IFC should work with the client to ensure the following:</p> <ul style="list-style-type: none"><li>• All project workers, regardless of nationality, have equitable access to essential services such as accommodations, food, clean drinking water, and safe transportation, in line with the IFC–EBRD <i>Workers' Accommodation: Processes and Standards</i>).</li><li>• The project has procedures to investigate and address claims of discrimination promptly and effectively, including clear reporting mechanisms and ensuring that workers feel safe to report any incidents of discrimination without fear of retaliation. This should be supported by a robust monitoring system that includes regular audits and inspections to verify</li><li>• compliance with non-discrimination and equal opportunity policies consistent with PS2 and the IFC-EBRD <i>Workers' Accommodation: Processes and Standards</i> for all workers in an equitable manner. The auditor should refer in particular to Annex I: Checklist on Worker's Accommodation.</li></ul>
<p><b>Freedom of Association</b></p> <p>IFC should support the development of an enabling environment that provides for collective bargaining and voluntary negotiations, as appropriate, between the IFC client, its contractors, and workers' organizations, ensuring that all negotiation processes are free from undue influence and that negotiated collective agreements are effectively implemented, in line with PS2 Guidance Note 34-39. IFC should work with the client to ensure its practices are aligned with PS2 by:</p> <ul style="list-style-type: none"><li>• Providing capacity-building and awareness-raising programs for workers, employers, security personnel, and relevant authorities on their rights and responsibilities, ensuring workers are aware of their rights to form and join unions, and are adequately protected against acts of anti-union discrimination, retaliation, and acts of interference.</li><li>• Ensuring union representatives have reasonable, non-discriminatory access to workers on site for the proper exercise of their functions without undue barriers, with proper consideration of the security needs and effective functioning of the project, and based on agreements between the client and workers' organizations, if feasible. Necessary arrangements (e.g. specified locations to ensure safety and privacy) should be provided to enable union representatives to communicate freely with workers without interference from the project or the presence of security guards.</li></ul>
<p><b>Terms of Employment</b></p> <p>IFC should work with the client to establish and support implementation of policies and procedures to ensure that:</p> <ul style="list-style-type: none"><li>• Termination of employment is carried out in accordance with all applicable agreements and law, including the provision of prior</li></ul>

notice and written justification of dismissal, entitlement of representative assistance to a worker regarding termination, and provision of severance payments as may be required; and that outstanding wages, benefits and back pay are settled before termination.

- There are clear communication channels with workers to address concerns related to terms of employment. This should include regular meetings with worker representatives and timely updates on any changes affecting workers, as well as effective monitoring of the project grievance mechanism.

#### **Enhancing Grievance Mechanism for Former Workers**

IFC should work with the client and other responsible parties (e.g., sub-contractors) to expand the existing project grievance mechanism to enable former Karot construction and operations workers to raise material concerns about their period of employment.

- The mechanism should ensure prompt handling of grievances received, in particular severance, overtime, and benefits pay, and the provision of remedy as appropriate.
- IFC should closely monitor the disclosure and implementation of the mechanism, in consultation with the complainants, to verify the effectiveness of the mechanism in addressing grievances.
- Where IFC finds limitations to achieving remedial action through the client or other responsible parties, IFC should support remedial action through the enabling activities articulated in IFC's RAF.

In order to evidence implementation of these recommendations, IFC should commission a third-party labor consultant after 18 months to assess PS2 compliance.

#### **Systemic-Level Recommendations**

##### **Strengthen Internal Guidance to strengthen labor lens of contextual risk analysis and capacity building**

IFC should build on recent updates to its Environmental and Social Review Procedures (ESRP), which recognize the importance of assessing contextual risks, by further strengthening internal guidance on the integration of national labor context into project risk assessments. This should include:

- Developing detailed internal guidelines for E&S staff on how to systematically identify and analyze country-specific labor risks, drawing on authoritative sources such as ILO country profiles, ITUC Global Rights Index, and national labor law enforcement data.
- Enhancing the scope/focus of labor risk analysis of discrimination, freedom of association, and terms of employment during IFC due diligence.
- Designing and delivering targeted internal training for IFC investment and E&S staff to operationalize this expanded focus, equipping them with the tools and methodologies needed to assess both OHS and broader labor-related risks in diverse country contexts.
- Using the results of this enhanced contextual and labor risk analysis to inform early capacity assessments of clients and key contractors, and to design proactive capacity-building programs before large-scale workforce mobilization. By embedding this

expanded labor risk focus into IFC's internal procedures and staff training, IFC will be better positioned to anticipate and mitigate systemic labor-related risks, ensure comprehensive PS2 compliance planning from the outset, and reduce the likelihood of persistent gaps during supervision.

### **Strengthen Linkages Between Supervision Findings, Disbursement Conditions, and Internal Accountability**

IFC should build on recent updates to its Environmental and Social Review Procedures (ESRP) by strengthening its coordination between supervision findings and disbursement decisions for timely resolutions of documented noncompliances with the PS, consistent with the Remedial Action Framework (RAF) objective of effective application of leverage. Key measures should include:

#### Timely Linkage

- Require use of financial leverage from first identification of persistent or emerging PS performance gaps, to avoid long periods of repeated findings.

#### Waivers and Extensions

- Make waivers or extensions for unresolved high-risk issues exceptional and justified only under defined circumstances.

Require each waiver/extension to document its rationale, supporting evidence, a formal risk assessment and measures to mitigate the risk of any loss of leverage through the disbursement and ensure implementation of corrective actions. By embedding these measures into IFC's internal systems, IFC can ensure that disbursement decisions are consistent with RAF commitments for enhanced IFC leverage to ensure successful implementation of PS in IFC operations and achieve timely resolution of high-risk issues and enhance the effectiveness of its supervision.

### **Build Client Capacity on PS2 compliance**

IFC should develop a capacity building program for clients in Pakistan specifically on freedom of association and collective bargaining focused on national laws, labor and working conditions, and OSH requirements, as well as Project Grievance Redress Mechanisms for E&S staff and relevant stakeholders in order to ensure compliance with PS2. This should be developed in consultation with competent labor organizations and trade unions.

