

INTERNATIONAL FINANCE CORPORATION

**MANAGEMENT REPORT AND MANAGEMENT ACTION PLAN
IN RELATION TO THE CAO COMPLIANCE INVESTIGATION REPORT**

ON

KAROT HYDROPOWER PROJECT, PAKISTAN

**MIDDLE EAST, CENTRAL ASIA, TÜRKIYE, AFGHANISTAN & PAKISTAN
(PROJECTS #34062 AND #36008)**

June 18, 2026

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ABBREVIATIONS AND ACRONYMS

ALU	Awami Labor Union
BWI	Building and Wood Workers International
CAO	Office of the Compliance Advisor Ombudsman
CMP	Contractor Management Plan
CO ₂ e	Carbon Dioxide equivalent
COVID-19	Coronavirus disease
CRT	Contextual Risk Tool
CSAIL	China Three Gorges South Asia Investment Limited
CTGC	China Three Gorges Corporation
CTGI	China Three Gorges International Limited
EBRD	European Bank for Reconstruction and Development
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
EPC	Engineering, Procurement, and Construction
ESAP	Environmental and Social Action Plan
ESDD	Environmental Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
ESRP	Environmental and Social Review Procedures
FoA	Freedom of Association
FY	Fiscal Year
GIIP	Good International Industry Practices
GM	Grievance Mechanism
GWh	Gigawatt hour
HR	Human Resources
IFC	International Finance Corporation
IESC	Independent Environmental and Social Consultant
ILO	International Labor Organization
ITUC	International Trade Union Confederation
KPCL	Karot Power Company Limited
MAP	Management Action Plan
MW	Megawatt
O&M	Operations and Management
OHS	Occupational, Health and Safety
PPE	Personal Protective Equipment
PSs	IFC's Environmental and Social Performance Standards
RAF	Remedial Action Framework
RTU	Registrar Trade Union
SCAP	Supplemental Corrective Action Plan
SHU	Social Hydro Labor Union
SRF	Silk Road Fund
TGDC	Three Gorges and Economic Development Company
US\$	United States Dollar

EXECUTIVE SUMMARY

- i. In 2014, Pakistan was faced with a major power crisis, with a peak shortfall of 5,400 megawatt (MW), which resulted in average load shedding of over six hours per day, hampering the country's economic growth and development. The World Bank Group embarked upon a coordinated and focused engagement in Pakistan to pursue long-term sustainability of the power sector through policy reforms and facilitation of US\$10 billion in investment in low-cost generation and renewable energy. As a critical part of that engagement, the International Finance Corporation (IFC) partnered with one of the largest renewable energy companies in the world, China Three Gorges Corporation (CTGC), through its international business arm, China Three Gorges International (CTGI), to form an investment platform for the development, ownership, financing, and operation of renewable power projects in Pakistan, chief among which was the 720MW greenfield run-of-the-river Karot Hydropower Project (Karot, or the Project).
- ii. IFC supported Karot through a 15 percent equity investment in its parent company, China Three Gorges South Asia Investment Limited (CSAIL)¹, and a US\$100 million debt commitment at the project level to Karot Power Company Limited (KPCL or the Company).² The CSAIL and Karot projects are premised on bringing together IFC's sector, country, environmental and social (E&S) and corporate governance expertise, and CTGI's technical and operational know-how and capital. The Project was designed to generate approximately 3,174 GWh net annually, meeting Pakistan's power needs at a lower cost than thermal alternatives.
- iii. At the outset, IFC was mindful of the challenges this partnership would entail in terms of differences in approach for a large, centrally controlled company such as CTGI to work with an international financial institution like IFC. This called for IFC to have a clear role, working closely with CTGI, to provide explicit support to help develop and implement international environmental social and governance standards across CSAIL and its projects, including Karot. Through IFC's equity investment in CSAIL, IFC's E&S team devoted considerable resources to helping CSAIL adopt a comprehensive environmental and social management system (ESMS), aimed at building internal capacity to comply with IFC's Performance Standards (PSs) and international practice, which are to be followed throughout the life of each project's development and operations. This is complemented by IFC's debt financing to Karot, where IFC further provided direct E&S support and monitoring of the implementation of the PSs and E&S related good international industry practices (GIIP) at the Project level.
- iv. Classified Category A under IFC's Sustainability Policy due to significant potential E&S impacts associated with a large greenfield hydropower development, the Project's construction period lasted 5.5 years, from December 2016 to June 2022, including during the challenging periods of the COVID-19 pandemic. At its peak, the Project employed over 5,000 workers, mostly from local communities around the Project site, and provided skills training. IFC, both directly and through the Lenders' Independent E&S Consultant (IESC), also closely monitored the Project during its construction period, having completed a total of 15 supervisions (both in-person and virtual).

¹ IFC committed a US\$125 million equity investment in CSAIL in November 2014, Project 34062

² IFC committed a US\$100 million debt investment in Karot in November 2016, Project #36008

v. As of March 2026, Karot is in the operations and maintenance (O&M) phase with a workforce of around 250 permanent employees. IFC exited its equity in CSAIL in June 2023 but maintains an active contractual relationship with KPCL through its loan.

vi. Between 2019 and 2022, IFC's Office of the Compliance Advisor Ombudsman (CAO) received three complaints from former employees, labor unions, and community members concerning the Project. Key issues included alleged discrimination against Pakistani workers in accommodations and services, restrictions on Freedom of Association (FoA), terms of employment and retrenchment practices, occupational health and safety (OHS), adequacy and accessibility of the workers' grievance mechanism, and hiring practices. After initial assessments and dispute resolution attempts, these three cases were merged into a single CAO compliance investigation, covering the CAO complaints known as Karot Hydro 02, 03, and 04. CAO's final Compliance Investigation Report (December 2025) found IFC non-compliant with aspects of its Sustainability Policy in relation to non-discrimination, FoA, and terms of employment/retrenchment, and noted evidence or indications of harm in these areas. CAO found IFC compliant on its supervision of OHS and grievance mechanism.

vii. IFC acknowledges that certain gaps existed in pre-investment due diligence, including limited contextual labor risk analysis. IFC also acknowledges that the Company faced challenges in the application of the Performance Standards at different points, especially during peak construction activities with numerous subcontractors. IFC's supervision activities supported by the independent E&S consultant (IESC) monitoring have been instrumental for timely identification of gaps. As part of its supervision, IFC continued working closely with the Company to resolve these issues, not just for OHS and grievance mechanisms but for other E&S issues referenced in the CAO investigation, and that such supervision was proactive in engaging the Company, implementing corrective actions, and applying financial leverage.

viii. Key IFC supervision activities already undertaken include:

- *Discrimination/Worker Services*: IFC required worker accommodation plans, commissioned independent labor audits, enhanced non-discrimination policies and grievance mechanisms, and monitored improvements (e.g., 293 new housing units sanitation upgrades). IFC acknowledges more explicit comparative assessment of accommodation provisions should have been conducted earlier.
- *Freedom of Association*: IFC facilitated union-management meetings, commissioned a FoA compliance review, independently engaged with unions throughout supervision activities and verified FoA commitments in human resources (HR) policies. IFC found no substantiated evidence of anti-union discrimination.
- *Terms of Employment/Retrenchment*: IFC required KPCL to hire a competent labor consultant to guide the company in aligning their termination procedures with PS2 and labor laws, improve payroll systems, and social insurance compliance, and support the construction demobilization process. Recurring issues were addressed through corrective actions, though some issues from the construction period remained open.
- *Occupational Health and Safety*: IFC conducted extensive OHS supervision, including COVID-19 response oversight, which met PS2 requirements.

ix. In consultation with KPCL, and as part of the attached Management Action Plan (MAP), IFC and KPCL have agreed on additional Project-level actions, including:

- Development of an O&M Worker Accommodation Plan which will be monitored in line with PS2;
- Enhancement of termination procedures in line with PS2 and national law and specific provisions to require written justification for dismissals, representative assistance, and preparation of a retrenchment plan (if required);
- Expansion of the Project's grievance mechanism to former workers for a period of 12 months, covering severance, overtime, and benefits claims related to employment at any stage of the project;
- Continued monitoring of freedom of association (FoA) and non-discrimination policies during O&M; and
- Independent review of MAP implementation progress after 18 months.

x. Systemic actions, which are already largely completed at the IFC level, include E&S Review Procedure (ESRP) enhancements, labor risk integration via the Contextual Risk Tool (CRT), hiring of labor specialists, targeted Performance Standard 2 training in Pakistan, and improved linkages between supervision findings and disbursement decisions.

xi. IFC remains committed to adaptive management, proactive risk mitigation, and constructive dialogue with KPCL and relevant stakeholders to strengthen labor and working condition outcomes. The CAO process has provided valuable lessons, particularly on early contextual labor risk analysis, comparative service assessments, timely FoA documentation, use of leverage, and grievance accessibility that IFC will embed into its broader operations to prevent, monitor, and resolve complex labor issues.

I. INTRODUCTION

1. This Management Report responds to the Compliance Advisor Ombudsman (CAO) investigation of complaints that CAO received from individuals and labor unions during the construction of the Karot hydropower dam. The report aims to clarify IFC's perspectives on CAO's findings, outline evidence of actions taken, describe consultations conducted with complainants and the Company, and describe actions in response to some of CAO's findings and recommendations. The Management Report is organized into seven sections: (i) Section I is an Introduction; (ii) Section II outlines the Project; (iii) Section III elaborates on the complaints; (iv) Section IV presents IFC Management's response to CAO's compliance investigation findings and recommendations, including an overview of actions taken by the Company; (v) Section V reflects the outcomes of the consultations with the Company and the Complainants; (vi) Section VI presents the Management Action Plan (MAP); and (vii) Section VII provides the Conclusion. Annex A contains the MAP in table format and Annex B presents KPCL's view.

II. THE PROJECT

2. The Karot Hydropower Project is a 720-MW run-of-the-river hydropower plant on the Jhelum River near Karot village in Punjab, Pakistan. The Project is being developed by Karot Power Company (Private) Limited (KPCL or the Company). KPCL is majority owned by China Three Gorges South Asia Limited (CSAIL), who in turn is wholly owned by China Three Gorges International Corporation (CTGI). In November 2014, IFC committed an equity investment of up to US\$125 million in CSAIL for up to 15 percent shareholding, and in November 2016, IFC committed a US\$100 million A loan to KPCL.

3. In accordance with IFC's Policy on Environmental and Social Sustainability (the Sustainability Policy), and based on the IFC team's review of the Project's potential environmental and social (E&S) impacts, the Project was classified by IFC as Category A. This categorization reflected the potential for significant, diverse, and potentially irreversible impacts—particularly in relation to resettlement and biodiversity, among other areas.

4. IFC's financing of the Project aimed to support clean energy generation and help address Pakistan's significant power shortage. The Project's planned generation of approximately 3,174 GWh (net) annually was met during the two first years of operation, while energy generation in 2025 was lower at approximately 2,738 GWh (net) due to unfavorable hydrological conditions. All power is sold to Pakistan's National Transmission and Dispatch Company Limited under a 30-year Power Purchase Agreement. The generated power reaches around 3.8 million residential customers and delivers electricity at a lower levelized cost than thermal alternatives such as fuel-oil based generation, benefiting end-consumers. The hydropower plant also contributes to reducing greenhouse gas emissions by around 1.6 million tons of CO₂e annually during operation. These outcomes contributed to improved sector sustainability and supported the country's broader energy reform goals.

5. The Project has generated important socio-economic gains. Thousands of jobs were created during construction, with a large majority filled by local workers, and permanent roles were established for operations. Targeted training and on-the-job learning built lasting local capacity.

6. IFC dedicated substantial resources to assessing and strengthening CSAIL's E&S capacity. Engagement with the Company began in 2014, nearly two years before IFC's loan to KPCL was committed in November 2016. In that pre-commitment period, IFC's team conducted an appraisal site visit and met in person with the Company on eight separate occasions as part of the appraisal process. These engagements focused on building capacity and guiding KPCL's development and implementation of environmental and social management systems (ESMS). Additional capacity-building sessions were organized for the Company including, among others: (i) an in-person E&S workshop with the sponsor and the Company in Beijing (May 2015), together with the International Hydropower Association; and (ii) a workshop in Islamabad covering the IFC Performance Standards (PSs) and biodiversity management (June 2015).

7. Following the financing commitment to KPCL and the start of construction (December 2016), IFC maintained close E&S supervision conducting twelve on-site visits and three virtual supervision visits. During the construction and operational phases, IFC required KPCL to engage an Independent Environmental and Social Consultant (IESC) on behalf of the lenders. The IESC carried out a total of 18 construction supervision visits—12 on-site and six virtually, with the latter necessitated by COVID-19 and associated travel restrictions. In addition, as part of the ongoing monitoring, the IESC carried out its first O&M site visit in October 2025 and there were numerous virtual meetings with IFC, KPCL and the IESC. Over the past two years, both the IFC E&S and IESC teams have organized and conducted two site visits, during which improvements in overall E&S performance have been observed. IFC also required KPCL to submit monthly Environmental and Social Monitoring Reports, which were reviewed both by IFC and the IESC. Related to IFC Performance Standard 2 (PS2) on labor and working conditions, two independent international labor audits of the Project were conducted in December 2019 and January 2021.

8. Management wishes to note here that security at the Karot site is managed through a comprehensive security management plan that combines private contracted security with support from Pakistani government forces. The Project is in the Jhelum River valley in proximity to the Line of Control where heightened security measures are mandated and therefore, robust and comprehensive security measures to safeguard personnel, assets, and operations have been introduced. Security management at the site is governed by the Company, although there are certainly aspects beyond the Company's control due to regional security risks that require management by the presence of Pakistani military personnel, along with police. This substantial security presence is also particularly important for safeguarding non-Pakistani workers and ensuring the continuity of operational activities in this sensitive border region.

9. Construction of the Project concluded in June 2022, and KPCL entered the operations and maintenance (O&M) phase. At that point, the Project transitioned from construction to full operation, and the workforce decreased from a peak of more than 5,000 to around 250 workers on site, including both contractor and sub-contractor workers.

10. In June 2023, IFC sold its equity in CSAIL but continues to maintain an active contractual relationship with KPCL through its loan.

III. CAO COMPLAINTS

A. Karot Hydro 02

11. In August 2019, a former employee submitted a complaint raising concerns over alleged unfair dismissal, withheld exit wages, and discrimination against local construction workers in relation to access to drinking water, conditions of accommodation, and transportation at the Project site. During the CAO Assessment phase, the complainant ceased communication with CAO. As a result, in December 2020, the case was automatically transferred to the CAO Compliance function, in accordance with the 2013 CAO Operational Guidelines that were in effect at that time.

B. Karot Hydro 03

12. In July 2020, a complaint was filed by representatives of Building and Wood Workers International (BWI) and the Pakistan Federation of Building and Wood Workers, acting on behalf of the Awami Labor Union (ALU). The complainants alleged labor-related issues including restrictions on freedom of association (FoA), health and safety concerns, unfavorable terms of employment and retrenchment, inadequacies in the grievance mechanism, and issues related to the deployment of security forces. Although the Company agreed to engage in a dispute resolution process, the complainants chose to bypass mediation and proceed directly to the CAO Compliance function. In April 2021, CAO transferred the case to the Compliance function and merged it with the Karot 02 case.

C. Karot Hydro 04

13. In May 2022, eight community members submitted a complaint alleging unfair hiring practices. The complaint expressed concern that the recruitment of skilled workers had not resulted in the anticipated employment opportunities for people from local communities and cited alleged irregularities in the recruitment process.

14. In June 2022, the case was referred to IFC for direct engagement with the complainants. IFC conducted a review of the allegations and found no evidence of systemic non-compliance with PS2 in relation to the Company's hiring practices; however, certain areas for improvement were identified.

15. The referral process concluded in March 2023, when the complainants requested that the case be transferred back to CAO. Both parties subsequently agreed to participate in a CAO -facilitated dispute resolution process to address the issues raised.

16. Despite attempts to resolve the issues through IFC's engagement and a CAO-mediated dispute resolution process, no consensus was achieved. In September 2024, the case was transferred to CAO's Compliance function. In finalizing the Compliance Appraisal for Karot 04 in December 2024, CAO closed the elements of the complaint concerning unfair hiring practices and forced resignation but decided to pursue an investigation into alleged dismissal-related issues.³ These issues were subsequently merged into the ongoing Karot 02/03 compliance investigation process.

³ These issues were not made known to IFC in the original complaint received in 2022.

17. In June 2025, IFC received CAO’s draft Investigation Report for the merged Karot 02/03/04 investigation, followed by the final report on December 23, 2025. In its findings, CAO concluded that IFC’s due diligence had not been commensurate with the nature, scale, and stage of the business activity, nor with the level of risk and potential impacts of the Project. CAO also identified non-compliance and evidence of harm—or indications of harm—relating to issues of discrimination and working conditions, FoA, and terms of employment and retrenchment. CAO found IFC in compliance—and thus found no harm related to IFC non-compliance—with respect to occupational health and safety (OHS) and with the workers’ grievance mechanism. CAO’s final report included recommendations both at the Project level and at the broader IFC systemic level.

IV. MANAGEMENT RESPONSE

18. IFC Management acknowledges the important issues raised in the complaint and respects CAO’s process in its investigation of the complaints. This section responds to CAO’s findings and recommendations and explains Management’s perspectives as to the requirements under the Sustainability Framework⁴ in relation to the issues raised.

A. Responses to CAO’s Findings

CAO Findings in Relation to IFC Due Diligence – General

CSAIL Equity Due Diligence

CAO finds that IFC correctly categorized the E&S risk of its CSAIL investment according to the Sustainability Policy (para. 40). 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 the 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

⁴ The IFC Sustainability Framework (2012) consists of the: (i) Policy on Environmental and Social Sustainability (Sustainability Policy); (ii) Performance Standards on Environmental and Social Sustainability (Performance Standards or PSs); and (iii) Access to Information Policy.

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.

KPCL Loan Due Diligence

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.

IFC Response to CAO Findings – CSAIL Equity Due Diligence

19. IFC acknowledges CAO's findings regarding pre-investment E&S due diligence (ESDD) for CSAIL and agrees that certain gaps existed in the appraisal process, undertaken in 2013–2014. At the time of the CSAIL equity appraisal 12 years ago, IFC followed the appraisal practices that were in place at the time. IFC did not yet have dedicated guidelines, tools, or an in-house labor specialist for more rigorous and robust contextual labor risk assessment. IFC has since developed and integrated detailed guidance and tools on both labor and contextual risk and hired in-house labor expertise to support structured contextual risk review and identification of critical labor issues such as discrimination, limits on FoA, and shortcomings in employment terms.

20. Despite this, IFC's E&S team recognized that CSAIL's Projects carried inherently high E&S risk, given sector challenges and expected Project impacts, compounded by the Company's limited experience in applying IFC PSs and World Bank Group Environmental, Health, and Safety Guidelines. This matter constituted the principal topic of the IFC Board discussion regarding the equity investment in CSAIL. Nevertheless, the Board ultimately determined that proceeding with the investment was justified, reflecting IFC's mandate to engage not only in Projects that are straightforward to implement, but also in those with substantial potential for development impact despite their complexity and challenges. In response, IFC developed a tailored Environmental and Social Action Plan (ESAP) aimed at building the Company's E&S capacity, strengthening human resources (HR) policies for contract workers, improving worker accommodation standards, and establishing contractor grievance mechanisms. These actions reflected IFC's understanding that high-risk projects require proactive capacity-building measures even in the absence of formal contextual tools at the time.

21. During appraisal, IFC engaged closely with CSAIL, undertaking several site visits between October and December 2013 and focusing on the development of E&S policies and procedures, including labor-related elements. IFC also drew on experience from the appraisal and supervision

of other IFC-supported hydropower projects to inform the risk assessment and ESAP design. However, IFC recognizes that ESAP actions should be grounded in verified contextual findings—including parent company labor performance and sector labor trends—to ensure completeness and enforceability. IFC acknowledges that specific risks related to discrimination, FoA, and employment terms could have been more explicitly reflected in the ESAP.

22. IFC has strengthened its due diligence approach significantly in the decade plus since this investment. It now systematically conducts country and sector scans for PS2-related risks, including contextual labor risk screening using the Contextual Risk Tool (CRT) and in line with the guidance included in the Environmental and Social Review Procedures (ESRP), engages in-house labor expertise early in appraisal for high-risk projects with anticipated labor related risks. IFC is committed to continuous improvement in combining rigorous, evidence-based analysis with specialist input to identify and mitigate labor-related risks early in the process.

IFC Response to CAO Findings – KPCL Loan Due Diligence

23. As with the CSAIL equity investment, the IFC Project team for the KPCL loan did not conduct a substantial country-level analysis of Pakistan’s labor context in relation to PS2—including terms of employment, discrimination, and FoA—due to the lack of formal tools, sector-specific guidelines, and in-house labor expertise at the time of the KPCL loan.

24. Despite this limitation, IFC identified the Project as inherently high risk because of its scale, sector, and potential E&S impacts. Accordingly, IFC engaged early and consistently with the Company to build E&S capacity and develop HR policies aligned with the Performance Standards (PS). Following the IFC Board approval of the equity investment in CSAIL, over the course of many visits and meetings, IFC required the Company to draft and implement HR policies that explicitly addressed worker rights, FoA, non-discrimination, fair treatment of migrant workers, and effective grievance mechanisms. These actions illustrate the value of sustained engagement in capacity building; however, IFC acknowledges that similar diligence for contractors including monitoring must be equally rigorous to address high-risk labor issues across all relevant parties.

25. In the case of KPCL’s main contractor, Three Gorges and Economic Development Company (TGDC), which led the construction work on the dam and other major infrastructure, IFC reviewed E&S track records via online research, Company documentation, and meetings, and examined key documents such as TGDC’s draft HR policy (January 2016) and KPCL’s Contractor Management Plan (CMP) (February 2016). IFC provided technical guidance in the development of ESMSs aligned with PS requirements at both the Project and the Engineering, Procurement, and Construction (EPC) contractor levels, factoring in Project size and context. These ESMS documents were finalized and approved shortly before major construction began in March 2016, with the ESAP requiring that the CMP align with KPCL’s ESMS and include dispute resolution provisions for labor issues.

26. The Environmental and Social Impact Assessment (ESIA) for the Project identified potential labor challenges, including risks related to compliance with national labor laws and international standards, OHS obligations under the Pakistan’s Factories Act, contract terms and

working hours, adherence to International Labour Organization (ILO) Core Labor Standards, and employment/training opportunities for locals. IFC acknowledges that a separate labor-focused risk assessment might have complemented the ESIA by providing additional targeted analysis and recommendations.

27. In the ten years since the KPCL appraisal, IFC has strengthened its due diligence methodologies by integrating formal contextual labor risk assessment tools (including a labor dimension within the CRT), deploying specialized labor expertise at the appraisal stage, delivering PS2-focused workshops to clients, and enhancing contractor monitoring requirements to ensure PS2 alignment at both Project and contractor levels. IFC notes that future appraisals should better document capacity assessments and more rigorously verify that contractor commitments are in place and enforceable. These changes strengthen IFC's ability to proactively identify, verify, and mitigate labor risks, improving compliance and worker protection on high-risk projects.

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.

28. IFC's appraisal (2014-2015) was based on information provided in the local content plan (i.e., hire local workers) stating that the Project's unskilled workforce would be fully sourced from Pakistan. IFC's monitoring of worker accommodation under the Project focused on reviewing the provisions to confirm that they were consistent with PS2 requirements. The IFC team maintained a focus on labor issues throughout appraisal and supervision. This included having the IESC add a labor specialist to its team, having additional external labor consultants (separate from the IESC) undertake periodic assessments and having KPCL engage an on-site labor consultant to provide advice and improve labor practices. Specific actions taken during supervision resulted in material improvements in accommodation standards for all workers, as well as the establishment and enhancement of policies, procedures, and grievance mechanisms to prevent and address any potential discrimination concerns. IFC continues to monitor the application of these non-discrimination policies during the Project's O&M phase.

29. IFC appreciates CAO's recognition of IFC efforts to address and improve issues regarding accommodations. It also acknowledges CAO's findings that IFC initially approached worker accommodation issues from the perspective of general quality and adequacy of basic services,⁵ rather than through a comparative assessment of these provisions. IFC recognizes a focus on adequacy may have underemphasized the evaluation of differences between worker groups.

30. While IFC maintained close attention on labor issues, the focus has evolved based on available inputs and Project circumstances over time. From the outset, IFC required the development of a Worker Accommodation Plan in line with IFC's standards and supervised its implementation through quarterly monitoring visits, conducted by IFC staff or by the IESC. These visits were intended to identify any shortcomings in execution and facilitate timely corrective actions.

31. As the Project approached peak construction activity in 2019, manpower requirements significantly exceeded initial projections. The number of non-Pakistani workers on site was double the expectation and the number of Pakistani workers increased by approximately 50 percent above the original forecast. This rapid and unanticipated growth in the workforce necessitated accelerated planning and expansion of accommodation facilities to meet the increased demand.

32. In December 2019, at the peak of construction, IFC commissioned an independent labor audit. The audit identified several non-compliances with labor requirements, including issues related to worker accommodation, and outlined associated corrective actions. The report noted

⁵ Basic services as defined in footnote 8 of paragraph 12 of PS2.

that:

- Differences in accommodation conditions between camps were primarily attributable to factors such as occupancy levels and camp location, rather than nationality, although common issues were noted across camps.
- Perceptions among Pakistani workers were that they experienced less favorable conditions in housing, transportation, and meal facilities, despite performing work broadly equivalent to that of non-Pakistani counterparts.

33. As follow-up, IFC worked with KPCL to develop detailed accommodation checklists and initiated training programs for site supervisors. These trainings emphasized cultural sensitivity and reinforced the Project's zero-tolerance policy on harassment and abuse, with the aim of preventing discrimination and having more consistent worker welfare across all nationalities.

34. The global COVID-19 pandemic, beginning in 2020 and continuing until 2022, created the impetus for additional on-site accommodation for local Pakistani workers who could no longer commute daily to their homes due to the additional health and safety protocols. This expansion of housing capacity, combined with the operational challenges posed by the pandemic, increased the visibility of inconsistencies in accommodation standards across the site and led to shortcomings, as captured in the IESC's construction monitoring reports.

35. As part of the Supplemental Corrective Action Plan (SCAP) developed in 2020 in connection with IFC's tenth disbursement, KPCL submitted an Updated Worker Accommodation Plan, initiated construction of additional accommodation units to maintain consistent standards for all workers (in terms of room space and sanitation), increased internal inspections and invested in raising overall welfare and safety standards of accommodation. This action was closed.

36. In February 2021, another independent labor audit was commissioned, although it was carried out remotely. Feedback from both Pakistani and non-Pakistani workers reflected mixed perceptions regarding accommodation conditions, including water quality and sanitation. The labor audit consultant concluded that perceived differences in accommodation based on nationality were unsubstantiated, while recommending that the accommodation oversight capacity be further strengthened.

37. During the pandemic, both the IFC team and international consultants were largely restricted to remote evaluations, as mentioned above. During this time, IFC team continued its frequent supervision activities and conducted SCAP progress meetings with KPCL on a monthly basis. IFC's monitoring activities were supplemented by the integration of a local labor expert in the IESC team and KPCL's contracting of an international labor consulting firm to provide *in situ* advice on labor aspects as agreed upon in the SCAP.

38. From June 2021 until the end of 2022, the IESC conducted three site visits to verify implementation of the SCAP. During this period, KPCL implemented measures to improve worker accommodation, including completion of the construction of 293 additional housing units and the consistent implementation of camp standards across all facilities. These standards covered key welfare provisions such as average space per person, shower-to-worker ratios, provision of hot water, regular water quality testing, and general facility upgrades.

39. IFC resumed its own site visits following the lifting of COVID-related travel restrictions in 2022. Reports from both the IESC and IFC in this period confirmed progress in the implementation of corrective actions and indicated that the remaining findings were unrelated to nationality of workers in camps. Substantial progress was also achieved in establishing and implementing non-discrimination policies, disciplinary procedures, enhanced grievance mechanisms, the creation of a Non-Discrimination Panel as a platform for possible discrimination claims, and awareness-raising initiatives for supervisors and employees.

40. Overall, IFC recognizes that the Project faced challenges in maintaining PS2-compliant accommodation conditions at times of unexpected difficulties such as the unanticipated expansion in the workforce and the requirement for local worker housing due to the pandemic. IFC's ongoing supervision activities contributed to timely identification and remediation of these challenges through on-site audits and frequent engagement with workers, which resulted in overall improvements for all workers.

41. In hindsight, IFC acknowledges that the review of accommodation services could have been enhanced through a more detailed, comparative assessment of the provisions for workers performing similar roles, with reference to the principle of non-discrimination and equal opportunity as defined in PS2 provisions. Access constraints as described above, particularly during the peak construction period, limited the ability to conduct such assessments.

42. Recent IFC supervision activities in 2026, when the active workforce is a fraction of what it was during the peak of construction, indicate continued equitable access for all workers—regardless of nationality—to basic services as defined in PS2. These requirements will be embedded in the O&M Worker Accommodation Plan, which is to be developed and will incorporate internal monitoring mechanisms to maintain consistent application.

43. As part of ongoing Project supervision, IFC will continue to monitor KPCL's implementation of non-discrimination practices throughout the O&M phase. This will include clear procedures for the timely and impartial investigation of any alleged discrimination, with oversight by Company management.

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.

44. During Project appraisal, IFC reviewed KPCL's policies and confirmed that independent worker unions are legally recognized in Pakistan, with viable options for workers to form or join such unions. IFC obtained assurances from CSAIL and KPCL that they would not restrict employees' FoA and verified that the HR policies of both KPCL and TGDC included commitments to respect employees' right to establish unions.

45. The Building and Wood Workers International (BWI) first wrote to IFC in January 2019 to highlight labor issues and alleged restrictions of FoA in the project, while informing IFC that the Registrar Trade Union (RTU) issued a certificate of registration to the Awami Labor Union

(ALU) at the Project level. IFC subsequently noted that ALU had been trying to organize at the project site since 2017, while the eventual registration took place in 2018.

46. IFC subsequently engaged the Company to meet with ALU several times during 2019, facilitating the first formal engagement between the union and Project representatives and encouraging continued bilateral discussions. Between March 2019 and early 2020, IFC monitored communications, meeting records, and responses to union concerns. A key engagement activity within this period took place in August 2019, when IFC facilitated a three-day workshop with the Company on E&S issues raised by the union, including legal compensation and demobilization planning, aimed at improving compliance with applicable requirements.⁶

47. During this period, ALU objected to the formation of a second union, the Social Hydro Labor Union (SHU), alleged to be a “yellow union”⁷ due to its rapid registration by the RTU. This allegation was not substantiated by IFC, the Company, or independent audits. Under Pakistani law, responsibility for union registration and review lies with the RTU, a process also acknowledged in ILO reviews. IFC maintained the position that the formation of multiple unions was not in itself a PS2 compliance issue, provided FoA was respected. IFC therefore refrained from influencing union registration matters or collective bargaining outcomes, while assisting in the resolution of issues such as insurance coverage, personal protective equipment (PPE), contractual terms, and food allowances.

48. In late 2020, ALU and BWI communicated a ‘Charter of Demands’ and raised concerns regarding irregularities in multiple worker terminations, alleging potential union-related dismissals. Subsequent IFC and IESC monitoring reviewed the termination records and did not find evidence to support the allegation. IFC discussed with the Company the other demands within the scope of PS2 and arranged direct engagement between unions and management, attending a February 2021 union-company meeting in an observer capacity.

49. Subsequently in 2021, IFC commissioned a specialized labor consultant to assess FoA compliance and provide recommendations. The consultant examined allegations related to ALU’s registration process, the establishment of the second union (SHU), and site access restrictions for union representatives. Recommendations focused on enhancing KPCL’s worker relations management capacity, strengthening the Workers’ Council and grievance committees, and sustaining union engagement. These actions were monitored under IESC services, supported by IFC’s direct engagement with unions, workers, and the RTU.

50. IFC and independent reviews found that union representatives not employed at the Project were subject to standard visitor access procedures, which became more challenging during the pandemic due to additional health and safety protocols. Once pandemic-related measures were lifted in 2022, local workers could commute daily or weekly to their communities, facilitating off-site communication with union representatives.

⁶ In the context of large projects such as Karot, demobilization is the systematic, planned process of winding down of the construction phase and moving to operations, and involves reducing the workforce accordingly.

⁷ A yellow union is a labor organization that is established, influenced, or controlled by the employer, rather than being an independent body freely formed and run by workers, thereby undermining the principles of freedom of association and genuine collective bargaining as set out in ILO Conventions 87 and 98.

51. In 2022, IFC monitored union applications to organize a referendum for selecting a collective bargaining agent, noting that neither union provided sufficient evidence to the RTU to proceed. IFC also confirmed that the Workers' Handbook and training programs contained awareness-raising content on FoA, which stated that, "The company respects the employees' right of establishment of Union and will respect the Pakistan Government's labor laws (Punjab Industrial Relations Act) relevant to the Union formation. All Employee Union actions must comply with Pakistan legislation requirements and must be solely for the benefit of workers and the project."

52. IFC maintained direct engagement with both unions, confirming their continued access to the site for worker engagement and recruitment. IFC observed ongoing engagement between unions, the Company's labor consultant, and its industrial relations representative—consistent with practices expected of a company with recognized unions.

53. Throughout Project's supervision, FoA remained a core focus of IFC's monitoring, with regular verification that company policies on workers' organizations were implemented in line with PS2 and national law. This monitoring contributed to progress on issues raised by the unions—including contracts, insurance coverage, PPE provision, and site access—and was supported by input from labor consultants engaged by IFC, the IESC's local labor consultant, and KPCL's own labor consultants under the SCAP.

54. After demobilization of the construction workforce and transition to operations phase with a considerably smaller workforce, union related activities are observed to decline. A Workers' Council has been established at the project, providing representatives recognized by their peers with a platform to address workplace issues, grievances, training opportunities, and working conditions. IFC confirmed that KPCL delivers trainings that include awareness on FoA for workers, managers, contractors, and security personnel, covering anti-union discrimination, retaliation, and interference, with provisions under Pakistani law and PS2 integrated into induction and refresher training, supported by posted materials and internal communications.

55. Access for union representatives continues to follow standard visitor procedures, including advance notice and provision for safe, private meetings with workers. Due to the site location and elevated security risks, there is a heavy Pakistani military presence requiring prior notification and identification for access. While this presence may be perceived as intimidating, it is beyond KPCL's control and applies to all visitors. The SHU, though no longer active in the O&M phase, confirmed non-discriminatory access during the CAO dispute resolution process and IFC's direct engagement in 2022.

56. Overall, IFC considers that its appraisal and supervision of FoA issues in the Project met the Sustainability Policy requirements and supported continued dialogue between unions, workers, and the Company. During the construction phase, two unions were lawfully registered and expanded their membership. IFC's assessment is that the Project complied with PS2 and national labor provisions on workers' rights to form and join unions, as confirmed by independent labor audits.

57. The CAO Dispute Resolution Conclusion Report for Karot-07⁸ provides further context relevant to labor union access at the Project site. While the complainant initially alleged denial of entry for union activities, the CAO-facilitated process resulted in both a verbal interim agreement (October 2023) and a full and final signed agreement (December 2024) between KPCL and the SHU. These agreements established a structured procedure for access, including advance scheduling, designated meeting spaces to safeguard privacy and safety, and the appointment of a dedicated company focal point to coordinate union visits. During the CAO monitoring phase, the complainant accessed the site multiple times to meet with workers and management, introduce the union, and recruit members. Both parties affirmed that access was facilitated in accordance with the agreement and committed to maintaining these arrangements for at least two years beyond CAO's involvement. CAO monitored implementation for six months, confirmed compliance, and closed the case.

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.

58. IFC acknowledges and appreciates CAO's findings that IFC followed OHS requirements under PS2. As part of its broader portfolio engagement, IFC launched a PS2 capacity-building program for clients in Pakistan in November 2024. This program reviewed PS2 requirements for direct employees, contracted workers, and supply chain workers, with a particular focus on maintaining safe working conditions, compliance with national labor laws, and key management elements such as risk assessments, emergency preparedness, and PPE management. The training content was informed by findings from recent labor audits conducted across IFC's portfolio.

59. In addition, the IESC's O&M report, based on the October 2025 site visit, confirmed that

⁸ Although not part of this CAO compliance investigation, the Karot Hydro 07 case offers key lessons on freedom of association. In August 2022, CAO received a complaint from the Social Hydro Labor Union president citing denial of site access for union activities, poor communication regarding pay and OHS concerns, and exclusion of unions from a collective bargaining referendum.

the Company's existing OHS plan broadly addresses relevant topics and provides a sound structural framework supported by appropriate procedures.

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.

60. IFC considers that it met its obligations under the Sustainability Policy in seeking to achieve comprehensive resolution of persistent allegations of PS2 performance gaps related to the adoption and implementation of HR policies and procedures.

61. Through IFC's sustained engagement with KPCL, corrective actions were implemented and substantial progress was achieved on material issues, including wages, provision of formal worker contracts, social insurance compliance, and identification and payment of entitlements to terminated workers after they left the work site. IFC recognizes that some of the issues were of a recurring nature, reflecting the complexities of having a construction site with multiple contractors and a large workforce, which required close follow-up by the Company.

62. On monitoring the labor and working conditions of the Project, IFC considers that it complied with its Sustainability Policy by maintaining an enhanced supervision approach commensurate with the risks of the Project and working with the Company to address the findings in due course. As mentioned in the above sections, this enhanced approach included additional internal labor expertise engaged by IFC, and by the IESC as well as the engagement of the labor consultant by KPCL per the SCAP. The concerns raised by CAO have been incorporated in IFC and IESC monitoring reports since 2017, with documented corrective actions as follows:

- Payment of legal minimum wages and overtime;
- Provision of written contracts;
- Provision of food allowances and paid leave;
- Training and awareness raising on workers' rights;
- Ensuring the availability of pay slips;
- Preparation and implementation of a construction demobilization plan; and
- Compliance with social insurance requirements.

63. Throughout the construction and O&M phases, IFC confirmed that KPCL maintained termination procedures referencing applicable regulatory requirements, including notice periods, severance payments, and payment of outstanding wages, benefits, and back pay. Workers' rights upon termination were communicated through employment contracts, the Workers' Handbook, and the Company's training module on Labor Laws and Regulations. While IFC confirmed the existence of relevant documentation, it recognizes that certain implementation gaps emerged during challenging junctures for the Project.

64. The unprecedented onset of the COVID-19 pandemic created significant health, safety, and operational challenges at the Karot site. In early 2020, the Government of Pakistan issued emergency regulations and orders to prevent the spread of the virus, including requirements to suspend non-essential activities, which required putting construction at sites with large number of workers on hold. In compliance with these directives, and to safeguard the wellbeing of the workforce and local communities, the Company implemented an urgent demobilization program, resulting in the departure of a substantial proportion of site staff, including both local and foreign personnel. Although the intent was for the workers to return when construction activities resumed, not all did, therefore the Company offered to review and address any claims of back pay and severance payments on a case-by-case and retrospective basis.

65. During the late stages of construction, KPCL also hired an in-house international labor consultant, as required by the SCAP, to support the Project's PS2 compliance. IFC observed that the consultant provided significant support in day-to-day implementation of agreed corrective actions and reporting and supported the Project in implementing PS2/labor law requirements during the demobilization as the Project moved into the operations phase.

66. While the Project was preparing for the construction demobilization, KPCL implemented a Construction Demobilization Plan as per good international industry practices (GIIP). The plan specified statutory requirements, timelines, worker information activities, and the provision of letters of recommendation and training certificates to facilitate future employment opportunities.

67. While there have been improvements as outlined above, IFC notes that some issues

occurred related to terminations that were not fully resolved by the time of the construction demobilization. This reflects challenges faced by the Company to monitor multiple local and international sub-contractors during the demobilization process (both during the COVID-19 demobilization and at the end of construction), rather than a lack of IFC monitoring. IFC has included targeted actions in the MAP to (i) further clarify the Company's termination procedures to support their consistent and continued application during IFC's supervision of the Project; and (ii) expanded grievance mechanism to former workers to submit any outstanding claim from the demobilization.

68. Regarding the use of contractual leverage to address the recurring issues outlined above, IFC considered withholding the tenth disbursement in July 2020 in response to labor performance gaps. However, IFC determined that withholding disbursement during the COVID-19 pandemic period could potentially worsen, rather than improve, labor conditions by depriving the Company of funds necessary to pay wages, benefits, and suppliers. At the time, IFC assessed that progress had been made in areas such as worker accommodation, and that continued engagement would be a more constructive approach, while also retaining leveraged with respect to future disbursements, if needed, in relation to the planned eleventh and twelfth disbursements. IFC did, in fact, ultimately withhold the eleventh and twelfth disbursements in May 2021 and April 2022, respectively, due to continued E&S non-compliance. (Other lenders chose to proceed with these disbursements.)

69. In summary, while IFC accepts that recurring HR policy and implementation gaps were a challenge throughout the construction period (2016–2022), it disagrees that this resulted from insufficient IFC supervision. IFC's approach was one of active engagement, targeted corrective actions, and strategic use of leverage. The decision not to withhold the tenth disbursement was made in the context of COVID-19 risks to worker welfare, with subsequent disbursements withheld when progress proved unsatisfactory. IFC considers this strategy consistent with its Sustainability Policy obligations while seeking to avoid exacerbating adverse impacts on workers.

Complaint Issue 5: Workers' Grievance Mechanisms

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.

70. IFC agrees with CAO's findings that IFC maintained continuous and structured monitoring of the Project's workers' grievance mechanism. Appropriate functioning of the grievance mechanism was monitored during each supervision activity by IFC (site visits, Annual Monitoring Reports) and the IESC, through worker interviews and observations at the site to confirm accessibility, supported by review of grievance logs and grievance committee meeting minutes. IFC's most recent site supervision activities confirmed continued access of workers to a functioning workers' grievance mechanism and provided evidence of issues raised and addressed in a timely manner through this channel. In addition to reviewing the grievance mechanism, IFC enhanced its understanding and monitoring of issues affecting workers by directly engaging with workers during each visit of the IFC and IESC teams. IFC agrees that its monitoring of the workers' grievance mechanism complied with the Sustainability Policy.

71. IFC recognizes that the internal workers' grievance mechanism is not accessible to former workers, including contractors' and subcontractors' workers who may have had issues with the Project in the past that may not have been fully resolved. KPCL operates a functioning external grievance mechanism for communities, which is accessible to former workers, including those whose termination resulted from actions taken by multiple sub-contractors and vendors engaged on site. Former workers may also submit complaints to the Labor Department, which subsequently coordinates with KPCL to review and resolve such claims. KPCL has accepted grievances of this nature as eligible and has sought solutions through the relevant contractors.

B. IFC Responses to CAO Recommendations

72. IFC carefully considered both CAO's Project-level and systemic-level recommendations and engaged closely with KPCL and Karot 03 and Karot 04 complainants in preparing IFC's response to CAO's recommendations.⁹

⁹ Karot 02 complainants decided not to engage with IFC.

Project-Level Recommendations

CAO Recommendation 1: Workers' Services and Non-Discrimination

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).*
 - 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.*
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73. The proposed actions in the MAP respond to the current situation on the ground and demonstrate the willingness of IFC and KPCL to continue engagement, despite the view of the Company and IFC that there is no harm linked to the Project that would meet the threshold of harm as defined in the CAO Policy. From the beginning, KPCL adopted non-discrimination policies, which were strengthened over the lifetime of the Project with further awareness-raising activities and grievance channels provided to workers. None of the shortcomings identified in worker accommodation through internal and external audits were deemed—whether by the independent labor auditors, the IESC review or IFC's own supervision—to be attributable to a discriminatory practice of the Company.

74. Many years elapsed between the original submission of the complaint during the construction period and CAO's issuance of its Compliance Investigation Report, with implications for IFC's response to CAO's recommendations. Today, there are around 250 workers at the site, compared to over 5,000 during peak construction. The number of unskilled Pakistani workers recruited from distant locations is limited, estimated at no more than 10–20 individuals. Almost all the workers are Pakistani nationals, and most are local, while there are 30 non-Pakistanis in supervisory/management roles. Although worker accommodation today presents a relatively manageable scale, this remains a priority area during IFC's ongoing supervision activities.

75. IFC's recent supervision activities confirmed that accommodation is offered to all workers, with individuals free to decide whether to reside on site. Most workers reported preferring to stay at the site for reasons of convenience, while some local workers chose to return home and were provided with a transportation allowance.

76. The IFC team observed equitable provision of essential services—such as food, potable water, and transport—across the workforce and found no discrepancies between services provided to Pakistani and non-Pakistani employees. Both IFC and the IESC noted the need to standardize and strengthen accommodation arrangements at the O&M stage through the development of a formal O&M Worker Accommodation Plan that meets the requirements of PS2 and incorporates

an internal audit mechanism, which KPCL has agreed to, as outlined in the MAP.

77. The internal audits will be carried out by the Labor Compliance Officer, a position that KPCL is in the process of recruiting, and will be conducted in line with PS2 requirements, considering the relevant criteria. It should be noted that the *IFC-EBRD Guidance Note on Workers' Accommodation: Processes and Standards*, like other guidance notes, is intended to provide good practice direction but does not establish compliance obligations.¹⁰

78. IFC also supports the Company's willingness to undertake further updates within the grievance mechanism to clarify how discrimination-related complaints will be submitted and processed and to include these specifications in the Company's existing training on Respecting Cultural Diversity. This action is commensurate with the current size of the Project and will help to capture any future claims related to potential discrimination.

CAO Recommendation 2: 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.*

79. IFC does not propose an action in the MAP relating to FoA as it considers that its supervision has been compliant with the Sustainability Policy requirements to monitor and support the Company to recognize workers' organizations and collective bargaining rights in accordance with PS2 and national law. . During recent supervision activities, IFC did not identify ongoing non-compliance related to Project workers' rights to join or form unions of their own choosing. Although IFC does not currently observe active unions with an interest in organizing at the site, IFC will continue to monitor and act on any non-compliances identified during future supervision activities.

¹⁰ <https://www.ifc.org/en/insights-reports/2000/publications-gpn-workersaccommodation>

80. KPCL has policies and practices on FoA that align with PS2 and that are publicly posted. The policies affirm workers' rights to organize, form and join unions, and engage in collective bargaining. Furthermore, there are established dialogue mechanisms, such as the Workers' Council, enabling workplace matters to be discussed, including grievances, wages, training opportunities, and working conditions. Worker representatives are recognized by peers and empowered to represent worker interests.

81. KPCL continues training and awareness sessions for workers, managers, contractors, and security personnel, which include topics on rights and obligations related to FoA and collective bargaining; protection from anti-union discrimination, retaliation, and interference; and relevant provisions under Pakistani labor law and PS2 requirements.

82. These topics are integrated into both induction programs for new workers and ongoing refresher sessions. Information on rights and protections is also accessible through posted materials, the Workers' Handbook, and other internal communications, including any updates.

83. IFC also confirmed that the site access procedure applied to union representatives is part of the same procedures used for all external Pakistani national visitors, which is at least a one-day prior notice to obtain clearance. KPCL remains committed to allowing space for safe and private meetings with workers, if such request is made. Workers can commute outside of the site, and workers have unrestrained access to union representatives of their own choice, including both inside and outside the Company's premises.

CAO Recommendation 3: 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 CAO Compliance Investigation Report – Karot Hydropower Project, Pakistan 89 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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84. Supervision activities, including findings from IESC reports, highlighted the need for updates to further strengthen the termination procedures. Recent reviews found that KPCL termination procedures largely reflect the statutory requirements on notification, severance, back pay, and other entitlements, though there remain some gaps that require action. Recommended improvements in the IESC report include an explicit requirement to provide written justification for dismissal, aligning gratuity pay calculations with national regulations, ensuring that workers

have access to representative assistance, preparing retrenchment plans where applicable, and maintaining consistent application of termination procedures across all contractors. These measures have been incorporated into the Project-level MAP actions agreed with KPCL and the implementation will be reviewed through IFC/IESC ongoing monitoring, which includes review of pay slips and notification letters provided to terminated workers to confirm implementation.

CAO Recommendation 4: 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.*
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85. KPCL has agreed to broaden the scope of the existing Project grievance mechanism, for a limited time, to allow former Karot construction and O&M workers to submit grievances related to their period of employment and termination. This action is in response to CAO's findings related to terms of employment. This expanded grievance mechanism will remain open to receive grievances for a twelve-month period following its public disclosure. The details of the grievance mechanism will be prepared by KPCL in consultation with relevant stakeholders, including the former construction contractor and representatives of former workers. The expanded scope will address issues such as severance payments, overtime compensation, and benefits entitlements arising from past employment at any stage of the Project's construction and operational activities.

86. KPCL will disclose the mechanism to former workers, including those employed by contractors, providing clear guidance on eligibility, the complaint submission process, and the period during which grievances must be submitted. This guidance will specify the type of information and evidence required to substantiate claims, thereby enabling effective verification of the issues raised.

87. As part of enhanced supervision during the period the expanded mechanism is open, IFC and the IESC will periodically review how complaints are handled under the expanded mechanism, including from each stage of the process – i.e., from receipt of evidence, through investigation and consultation, to the resolution of grievances.

Independent Review of Project-Level MAP Actions

88. As part of the O&M phase of the Project, and 18 months after the MAP approval by the

IFC Board, a qualified consultant will review progress in implementing the Project-level actions set out in the MAP. The consultant's findings will be reviewed jointly with the Company and incorporated into IFC's supervision records. Consistent with its practice for similar internal or Company reviews, the consultant's report will not be disclosed publicly nor shared with complainants or their representatives. The consultant's findings will be shared with CAO on a confidential basis.

Systemic-Level Recommendations

CAO Recommendation 6: 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.*
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89. Management welcomes CAO's detailed recommendation on strengthening IFC's internal guidance for integrating national labor risks into Project risk assessments. Actions related to Recommendation 6 have already been implemented. Over the past decade, IFC has developed internal guidance, tools, and processes, and undertaken targeted capacity-building initiatives to enhance its approach to labor issues. The ESRP already embedded a labor lens into contextual risk analysis at the Project level. Through the CRT and other internal E&S systems applied during scoring, categorization, and screening, labor risks are assessed as a distinct dimension alongside broader environmental and social risks. Current E&S screening incorporates consideration of national statutory frameworks, gaps relative to PS2 requirements, and sector-specific challenges, drawing on authoritative, country-specific data sources.

90. In recent years, IFC further strengthened its labor risk analysis during due diligence, with heightened attention to discrimination, FoA, and terms of employment. This strengthening included the hiring of dedicated labor specialists who are involved in the appraisal of projects in

labor-intensive sectors or those with elevated contextual risks. IFC’s approach also integrates consultations with workers, contractors, unions, and worker representatives—depending on Project scope—alongside reviews of worker grievances, court cases, and statutory compliance records. Where gaps are identified, IFC works with clients to develop time-bound corrective action plans, monitored as part of supervision. For high-risk projects, independent labor audits are conducted to ensure compliance with both national legislation and IFC PS2 requirements.

91. At the corporate level, IFC has expanded in-house labor expertise by establishing regional pools of specialized staff. In collaboration with the ILO, IFC developed a global training program to strengthen the technical capacity of E&S staff in labor risk management. This program, rolled out in 2025, includes region-specific, in-person sessions of 3.5 days. As of January 31, 2026, IFC had completed three regional training courses, reaching 133 E&S staff members across all regions and reinforcing institutional capability to address labor-related contextual risks.

92. For the reasons outlined above, IFC considers the actions under this recommendation to be completed.

CAO Recommendation 7: 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.

93. IFC has the necessary policies, procedures, and internal controls to ensure effective alignment between supervision findings, disbursement decisions, and internal accountability, consistent with the objectives of the IFC/MIGA Interim Approach to Remedial Action.

94. Recent updates to the ESRP further reinforced this approach, which already sets out clear requirements for identifying, escalating, and managing E&S risks throughout the investment life cycle. These procedures embed the principle of applying IFC’s available leverage throughout the project lifecycle to influence clients and other responsible parties to take timely remedial action, when appropriate.

95. Under the ESRP, systematic supervision, risk rating, and documentation of PS compliance are required, including the identification of persistent or emerging performance gaps. Supervision findings are formally recorded in IFC’s internal E&S systems and directly inform client engagement strategies, corrective action planning, and transactional decisions, including disbursement. Where material E&S risks or instances of noncompliance are identified, ESRP procedures provide for escalation and the use of leverage to secure corrective action, thereby avoiding prolonged periods of repeated findings without resolution. Application of contractual leverage—through disbursement conditions, covenants, and other contractual mechanisms—further IFC’s ability to influence client performance and require timely corrective actions. The recent ESRP updates strengthen this approach by clarifying roles, accountability, and supervision requirements, with the intent to utilize leverage proportionately and in a timely manner.

96. Existing ESRP processes treat waivers and extensions for unresolved E&S issues as exceptional. Any decision to proceed with disbursement under such circumstances requires clear justification and escalation through established internal review and approval mechanisms, including an assessment of residual risk and the adequacy of planned mitigation measures.

97. Given these recent enhancements, IFC considers that the recommendation to further strengthen linkages between supervision findings, disbursement conditions, and accountability has been addressed. The existing approach provides IFC with robust tools to apply leverage effectively, manage risk, and secure timely remediation of PS noncompliance. IFC will continue to build on these practices as part of its ongoing commitment to continuous improvement.

CAO Recommendation 8: 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.

98. IFC had already addressed this recommendation prior to submission of this Management Report and MAP, having launched a PS2 capacity-building program for clients in Pakistan in FY25. The workshop component of the program provided a comprehensive review of PS2 requirements applicable to direct employees, contracted workers, and workers within the supply chain. It focuses on fair treatment, non-discrimination, Freedom of Association and collective bargaining, safe working conditions, and compliance with national labor legislation. IFC welcomes further engagement with trade unions in continued refining of the training agenda.

99. Key areas of discussion included HR policies—covering equal opportunity, anti-harassment and gender-based violence prevention, OHS, and broader human rights commitments—alongside employment terms, grievance mechanisms, retrenchment procedures, and supplier compliance monitoring. OHS topics addressed during the sessions included risk assessments, emergency preparedness, and the management of PPE. The program also incorporated practical exercises based on recent labor audit findings, ensuring participants could apply the concepts to real-world challenges.

V. CONSULTATIONS WITH THE COMPANY AND COMPLAINANTS

100. As per the CAO Policy, IFC consulted on the draft MAP with the Complainants and KPLC.

A. Consultation with Complainants

101. Following receipt of CAO’s investigation report on December 24, 2025, and the complainants’ contact details, IFC reached out promptly to express interest in MAP consultation conversations. IFC genuinely welcomes the opportunity to engage with complainants and to hear feedback on proposed actions – a step IFC views as essential to developing a meaningful MAP.

Karot 02

102. Complainants communicated through CAO that they preferred not to engage directly with IFC at this time. IFC fully respects that decision and remains open to future engagement through regular project supervision, should they wish to connect.

Karot 03

103. Complainants included representatives of Building and Wood Workers International (BWI) at global and regional levels. IFC and the complainants held two productive virtual meetings, with IFC sharing a written draft MAP in the interim, to present the proposed actions and gather initial and follow-up feedback. IFC also informed BWI representatives that IFC has been in frequent engagement with the Awami Labour Union (ALU) representative during the project’s construction stage and that neither KPCL nor IFC has been notified of a successor for ALU after the representative passed away couple of years ago. BWI recognized ALU as no longer being active in the project as the construction stage is over.

104. At the time of the complaint filing in 2020, the union’s main concern was FoA for the construction workers, which reflects their role as a construction sector union. However, they recognized that with the passage of time – and the project’s transition to O&M – FoA activities of the project fall beyond BWI’s scope. With that context in mind, they expressed particular interest in the MAP item on expanding the project’s grievance mechanism to cover former construction workers, and in systemic actions that can be taken by IFC to strengthen practice on future projects.

105. IFC explained to BWI more about current FoA policies and workers’ representation mechanism in place at the project and walked through the company’s approach to expanding the grievance mechanism to former workers. IFC was candid about the challenges involved – including the difficulty of reaching former workers who may no longer live in the area or maintain ties to the project. IFC took note of the suggestion from BWI to consult former unions to assist in reaching out to construction workers. IFC also took the opportunity to clarify the relevant timelines

and confirm that the mechanism would accept grievances related to employment at any point during construction or O&M.

106. IFC also welcomed the broader conversation on labor topics and expressed willingness to share more information on systemic actions taken by the institution since 2020, and to explore opportunities for collaboration on outreach and training. BWI clarified their desire to be consulted as a competent labor organization in Pakistan to support IFC’s capacity building programs in the country. While these discussions extend beyond the Karot MAP, IFC looks forward to continuing dialogue with labor organizations in the country to support broader work to build capacity and strengthen PS2 implementation.

Karot 04

107. Complainants included two community members whose 2022 labor complaint centered primarily on hiring and dismissal. IFC held two calls with the individual who agreed to engage.

108. The first call gave him space to share his past and current concerns, and allowed IFC to explain the scope and purpose of this specific engagement, as some of his interests extended beyond the MAP. IFC then presented the proposed actions and shared the draft MAP in writing – translated into Urdu – before following up with a second call to gather more detailed feedback.

109. The complainant, speaking on behalf of other community members, appreciated both the proposed actions and the opportunity to discuss them directly with IFC. The complainant also communicated the local community’s expectations regarding job opportunities from the project, a topic which IFC also discussed at earlier stages with Karot 04 complainants. The IFC team informed him about KPCL’s approach to local hiring, which prioritizes local affected community members among equally qualified candidates, which he understood and appreciated. The majority of the discussion focused on what mattered most to him: expanding grievance mechanism access to former workers. IFC took the opportunity to clarify the relevant timelines and confirm that the mechanism would accept grievances related to employment at any point during construction or O&M. He welcomed this clarification and said that he was pleased and satisfied with the MAP.

110. He also confirmed that he remains in contact with many former workers and would be able to share information about the proposed MAP with them. IFC welcomed this outreach and offered to coordinate further communications to ensure former workers are well-informed about the grievance mechanism.

B. Company Position

111. KPCL reviewed the CAO Compliance Investigation Report and reaffirms its commitment to maintaining high standards of E&S management in line with IFC PSs and applicable national laws. The Company’s E&S approach in the Karot Project has been guided by robust governance structures, comprehensive policy frameworks, and a fully implemented ESMS that embeds accountability, measurable targets, and ongoing monitoring.

112. Since its inception, KPCL, supported by its majority sponsor CSAIL, has developed specific HR and labor management policies aligned with IFC’s requirements and host-country

legislation. Independent engineering and E&S consultants from internationally recognized firms have been engaged throughout to supervise, evaluate, and advise on E&S performance. The Karot Project has achieved external certifications and received national awards in recognition of its environmental stewardship, biodiversity conservation, OHS, and contributions to community development.

113. On non-discrimination and worker services, KPCL has maintained a clear anti-discrimination policy and a functioning grievance mechanism and has ensured that variations in accommodation or benefits reflect job responsibilities rather than nationality. Living conditions and supporting services have been progressively improved, with equal access to safe drinking water, reliable transportation, and fair food allowances provided to all employees.

114. In relation to FoA, KPCL has complied with all relevant provisions of Pakistan's Industrial Relations Act, supported lawful union registration processes, and implemented measures to safeguard workers' rights without interference. In the absence of a legally certified collective bargaining agent, alternative representation mechanisms and grievance platforms were established to address workforce concerns effectively.

115. For OHS, KPCL has applied recognized international standards, maintained a low accident rate, and earned the National Electric Power Regulatory Authority (NEPRA) Occupational Health, Safety, and Environment Excellence award. The Company's COVID-19 response was assessed positively by independent observers for timeliness and adherence to GIIP.

116. On terms of employment and retrenchment, KPCL believes that it has followed IFC standards and national law, introducing improved payroll and attendance systems, securing universal registration for social protection schemes, and providing independent training on labor rights. All severance obligations have been met in full, with proactive outreach to ensure affected workers receive entitlements.

117. KPCL believes the workers' grievance mechanism has evolved into a mature and effective system, supported by training, monitoring, and transparent record-keeping. Over 1,400 grievances were resolved during the construction phase, with resolution times improving and case volumes declining significantly since 2021.

118. During construction, the Project generated substantial socio-economic benefits, creating thousands of local jobs, building technical capacity in the hydropower sector, and delivering more than twenty community infrastructure initiatives. As the Project moves into the O&M phase, KPCL remains committed to advancing E&S performance, protecting worker rights, and contributing to sustainable development.

119. In terms of the MAP itself, KPCL reaffirms its commitment to full compliance with IFC's PSs, particularly PS2 on Labor and Working Conditions, and to strengthening systems in line with GIIP. The Company regards the MAP as a constructive and practical pathway to address identified gaps and to further embed fairness, transparency, and accountability into its labor and workforce management framework. KPCL's response is anchored in three guiding principles:

- Alignment with IFC PS2 and relevant IFC–EBRD guidance;
- Continuous improvement of existing processes; and
- Collaboration with IFC, contractors, and other stakeholders to ensure sustained compliance.

120. Key commitments include:

- *Improved Worker Services & Non-Discrimination*: Development of a comprehensive Worker Accommodation Plan for the O&M phase, enhancement of grievance handling for discrimination-related issues, and strengthened oversight through elevated social compliance roles.
- *Terms of Employment*: Procedural updates to ensure fairness and transparency in termination processes, including representative support and written justification, alongside the creation of formal retrenchment planning aligned to PS2 and national law.
- *Expanded Grievance Mechanism for Former Workers*: Extension of grievance coverage to past employees for a defined 12-month period, providing access to remedy for matters relating to severance, overtime, and benefits entitlements.
- *Independent Monitoring*: Full cooperation with an independent review of the implementation results, 18 months after MAP approval.

121. Several measures have already been embedded into operational practice, particularly in relation to grievance management and foundational compliance mechanisms. Other elements requiring new frameworks—such as retrenchment planning and expanded grievance coverage—are in active development.

122. KPCL’s response demonstrates clear intent to close all open actions within agreed timelines and to utilize findings and IFC supervision as tools for practical, sustained improvement. The Company remains committed to maintaining equitable treatment, safe working conditions, and open channels for worker engagement, consistent with its obligations and values.

C. Engagement with CAO

123. IFC actively engaged with CAO during the MAP preparation process. Beginning at an early stage, IFC updated CAO on its efforts and rationale behind proposed actions and shared a written draft MAP with CAO well ahead of the submission deadline to allow sufficient time for feedback. Two meetings between the IFC and CAO teams provided space for substantive discussion on both project-level and systemic-level actions, after which IFC provided a compilation of internal documents related to completed actions. IFC valued this opportunity for constructive dialogue and remains open to continued engagement, whether through written feedback or follow-up conversations.

VI. MANAGEMENT ACTION PLAN

124. The MAP presented in Annex A reflects the actions and limitations described in the section above. It presents actions that have been agreed upon with KPCL. The level of detail presented

below is commensurate with the timelines established by the CAO Policy for IFC to respond to a CAO investigation.

VII. CONCLUSION

125. IFC values the CAO process as an important mechanism for strengthening IFC's E&S performance and accountability. While IFC does not agree with all of CAO's conclusions—particularly findings of non-compliance in areas where IFC considers its supervision met Sustainability Policy requirements—IFC acknowledges that some gaps existed in earlier stages of due diligence and in aspects of supervision. These included insufficient contextual labor risk assessment during pre-investment appraisal, limitations in comparative evaluation of accommodation conditions, and delays in systematically collecting and documenting FoA-related information.

126. IFC's analysis concludes that on several key issues, including OHS and workers' grievance mechanism oversight, its actions were consistent with PS2 and Sustainability Policy obligations. On other issues, such as terms of employment, retrenchment, discrimination, and FoA, IFC undertook sustained engagement with the Company, implemented corrective actions, and exercised financial leverage, but some improvements were gradual and could have been accelerated with earlier targeted interventions and more rigorous follow-up.

127. At the systemic level, IFC has already acted on many CAO recommendations, including:

- Enhancements to its ESRP to integrate a stronger labor focus into contextual risk analysis;
- Deployment of labor specialists in high-risk project appraisals and supervision;
- Introduction of targeted PS2 capacity-building programs for clients in Pakistan; and
- Clarified internal procedures for linking supervision findings to disbursement decisions.

128. Consistent with the IFC/MIGA Interim Approach to Remedial Action, the Company will implement the Project-level actions set out in the MAP with the support of IFC, including the development of an O&M Worker Accommodation Plan with internal audit mechanisms, termination procedure enhancements, temporary expansion of the grievance mechanism to former workers, continued monitoring of FoA and non-discrimination policies, and conduct of an independent review of MAP progress 18 months after Board approval. IFC will continue delivering PS2 training that incorporates sector-specific labor risk elements and will further refine ESRP and internal guidance to embed lessons learned from the Karot case into operational practice.

129. IFC remains committed to adaptive management, proactive risk mitigation, and constructive engagement with clients, workers, and stakeholders to strengthen labor and working condition outcomes in IFC-supported Projects. The CAO process has reinforced IFC's commitment to transparency and continuous improvement, both at the Project and corporate level, and has provided valuable insights into how IFC can more effectively anticipate, monitor, and remedy complex labor-related risks in diverse operational contexts.

Annex A:
MANAGEMENT ACTION PLAN
March 2026

Project-Level Recommendation and Actions			
CAO Recommendation	IFC Action	Deliverable and Time	Responsible Entity
<p>Workers’ Services and Nondiscrimination</p> <p>IFC should work with the client to ensure the following:</p> <ul style="list-style-type: none"> • 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>. • 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 <p>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</p>	<ol style="list-style-type: none"> 1. KPCL will develop and implement a Worker Accommodation Plan for the current O&M phase, in line with PS2. The plan will incorporate an internal auditing mechanism to monitor project workers’ continued and equitable access to essential services—such as accommodation, hygienic food, clean drinking water, and safe transportation, irrespective of nationality. Ongoing implementation will be overseen by a designated in-house Labor Compliance Officer. It should be noted that the <i>IFC-EBRD Guidance Note on Workers’ Accommodation: Processes and Standards</i>, like other guidance notes, is intended to provide good-practice direction but does not establish compliance obligations. 2. KPCL will enhance the existing Grievance Mechanism so that it explicitly addresses discrimination-related complaints. This action will include: <ul style="list-style-type: none"> • Clear procedures for the timely and impartial investigation of alleged discrimination; • Safe and anonymous/confidential reporting channels that protect workers from retaliation; and • Communication and training to make workers aware of their rights and the reporting process. 	<ol style="list-style-type: none"> 1. Deliverable: O&M Accommodation Plan meeting PS2, evidence of audits and actions taken to address the findings. Timeline: Six months after Board approval of the MAP. 2. Deliverable: Updated grievance mechanism procedure. Timeline: One year after Board approval of the MAP. 	<p>KPCL</p>

Project-Level Recommendation and Actions

CAO Recommendation	IFC Action	Deliverable and Time	Responsible Entity
	<p>These updates will be integrated into ongoing awareness and training programs, including modules on <i>Respecting Cultural & Religious Diversity</i>, and reinforced through visible workplace postings and the KPCL Workers’ Handbook. The enhanced Grievance Mechanism will be monitored by the Senior Social Compliance Manager of the project sponsor to verify that non-discrimination policies are applied consistently and effectively.</p>		
<p>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:</p> <ul style="list-style-type: none"> • 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 	<p>No Action</p> <p>IFC’s supervision has adhered to the requirements of its Sustainability Policy, particularly by supporting and monitoring that the Company followed PS2 requirements in engaging with workers’ organizations. During recent supervision activities, IFC did not find any ongoing violations concerning project workers’ rights to join or establish unions of their choice. IFC will continue to monitor this as part of regular supervision.</p>	<p>N/A</p>	<p>N/A</p>

Project-Level Recommendation and Actions

CAO Recommendation	IFC Action	Deliverable and Time	Responsible Entity
<p>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.</p>			
<p>Terms of Employment 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"> 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's grievance mechanism. 	<p>1. Strengthening Termination Procedures KPCL will review and update its termination procedures to include:</p> <ul style="list-style-type: none"> Providing written explanations and representative support to dismissed workers; and Formally incorporating the requirements related to the dismissal process in line with national law and PS2 into the Company’s HR policy documents to ensure clarity and consistency for all contractors and sub-contractors. <p>2. Retrenchment Planning (as needed) KPCL will:</p> <ul style="list-style-type: none"> Include a requirement in the HR policy to develop a retrenchment plan when significant workforce reductions are expected; and Create a plan template that meets PS2 requirements, complies with national labor laws, and reflects GIIP, incorporating feedback from consultations with worker representatives. 	<p>Deliverable: Updated termination procedure Timeline: One year after Board approval of the MAP.</p>	<p>KPCL</p>
<p>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</p>	<p>1. Expanded Grievance Mechanism (EGM) Scope KPCL will temporarily broaden the scope of the existing project grievance mechanism so that former Karot construction and O&M workers can submit grievances tied to their employment during any stage of the project. The mechanism will be prepared by KPCL</p>	<p>1.Deliverable: EGM disclosed to former workers. Timeline: The EGM will be launched no later than three months after Board</p>	<p>KPCL</p>

Project-Level Recommendation and Actions

CAO Recommendation	IFC Action	Deliverable and Time	Responsible Entity
<p>concerns about their period of employment.</p> <ul style="list-style-type: none"> 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. 	<p>in consultation with relevant stakeholders and will be kept available for a period of up to 12 months starting from the date of disclosure of the expanded grievance mechanism.</p> <p>The expanded scope during this period will cover issues such as severance pay, overtime payment, and benefit entitlements relating to past employment. KPCL will disclose the mechanism to former workers, including those of contractors, with clear guidance on eligibility and how complaints are to be submitted, encompassing information and evidence that will be needed to enable verification of the issues raised in the complaint.</p> <p>2. IFC Monitoring: IFC will monitor the handling of any complaints submitted to the expanded mechanism, review the receipt of evidence, the investigation process, consultations, and resolution of complaints.</p>	<p>approval and will remain open for 12 months.</p> <p>2. Deliverable: Grievance logs received and reviewed by IFC. Timeline: 12 months after Board approval.</p>	<p>IFC to monitor.</p>
<p>Independent Review To track the implementation of these recommendations, IFC should commission a third-party labor consultant after 18 months.</p>	<p>Eighteen months after the MAP approval date, a qualified independent consultant will review progress with the MAP-related actions. Consistent with its practice for similar internal or client reviews, the consultant’s findings will be discussed with the client and incorporated into IFC’s supervision records but will not be disclosed publicly nor shared with complainants or their representatives.</p>	<p>Deliverable: Independent audit report on MAP progress. Timeline: Completed 20 months after MAP Board approval.</p>	<p>KPLC</p>

Systemic-Level Recommendations and Actions		
CAO Recommendation	IFC Actions	Deliverables
<p>Strengthen Internal Guidance to strengthen labor lens of contextual risk analysis and capacity building</p> <p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>Over the past decade, IFC has developed internal guidance and tools, as well as has taken other actions to strengthen and build capacity on labor issues, such as integrating contextual labor risk into the ESRP, enhancing project-level appraisal and supervision with in-house labor specialists and expanding corporate-level capacity through deep-dive technical labor training across all regions. Given these established systems and ongoing initiatives, IFC considers that this recommendation from CAO has been addressed; hence, no further action is required.</p>	<p>No new deliverable. Already completed:</p> <p>Contextual Risk Tool (CRT), Relevant Tipsheets and Guidance.</p>

<p>Strengthen Linkages Between Supervision Findings, Disbursement Conditions, and Internal Accountability</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>IFC considers that the new WBG E&S organizational structure, effective January 15, 2026, substantively addresses the concerns raised regarding the strength of internal accountability mechanisms governing disbursement decisions and the use of leverage.</p> <p>The new structure introduces a formal separation between "Makers" (frontline E&S teams embedded in IFC operations) and "Checkers" (the new Global WBG E&S Risk unit, operating independently from IFC Management). This separation directly addresses the CAO's concern that supervision findings may not translate into timely and consistent use of financial leverage. Under the new model, the Checkers function holds an active and independent role for all portfolio projects and in monitoring projects for high-risk E&S issues during implementation. This will allow IFC to verify, track and monitor progress on agreed actions independently from operations. This includes maintaining a watch list of projects with material E&S performance gaps and the authority to step in when high-risk issues arise — providing an institutional mechanism for persistent or emerging PS non-compliances to be escalated and acted upon in a timely manner, rather than being repeatedly documented without consequence. This directly responds to the CAO's concern about long periods of repeated findings without resolution.</p> <p>On disbursement decisions, the revised E&S Accountability and Decision-Making (ADM) Framework requires that material E&S waivers — including those relating to disbursements — obtain review and clearance from the Global WBG E&S Risk unit before they can be approved. Because the Checkers function is structurally independent from IFC Management, this arrangement means that waivers for</p>	<p>Deliverable: updated ESRP reflecting the new WBG E&S organization and roles and responsibilities</p> <p>Timeline: Q1FY27</p>
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Systemic-Level Recommendations and Actions		
CAO Recommendation	IFC Actions	Deliverables
	<p>unresolved high-risk issues are subject to independent scrutiny, with documented rationale and formal risk assessment, and cannot be granted solely on the basis of operational or transactional considerations.</p> <p>Taken together, these features provide a durable institutional basis for disbursement decisions to be consistent with the RAF commitment that leverage is applied effectively and in a timely manner to achieve resolution of high-risk E&S issues.</p> <p>To embed these governance changes into IFC's operational framework and align with the RAF objective of effective application of leverage, IFC will update its Environmental and Social Review Procedures (ESRP) to reflect the new E&S organizational structure and the associated decision-making responsibilities, including the Checkers' clearance role for material E&S waivers and disbursement-related E&S decisions including escalation mechanisms.</p>	
<p>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 OHS 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.</p>	<p>IFC has already rolled out a PS2 capacity-building program for clients in Pakistan starting in FY25. The workshop includes a review of IFC PS2 requirements for direct, contract, and supply chain workers, focusing on fair treatment, non-discrimination, Freedom of Association and collective bargaining, safe working conditions, and compliance with national labor laws. Key discussions covered HR policies (equal opportunity, anti-harassment/ gender-based violence, OHS, human rights), employment terms, grievance mechanisms, retrenchment procedures, and supplier compliance monitoring. OHS issues—including risk assessments, emergency preparedness, and PPE management—were also addressed, alongside practical exercises based on recent labor audit findings. IFC will consult trade unions in continued refining of the training agenda, and will organize another PS2 workshop by the end of FY27.</p>	<p>Deliverable: PS2 workshop in Pakistan</p> <p>Timeline: Q4FY27</p>

Annex B:

KPCL's Perspective on CAO's Compliance investigation Report

A. Karot Project: Born in Response to Pakistani People's Aspiration for Electricity

1. Pakistan has long grappled with a severe electricity shortfall, with a power deficit once exceeding 10 percent. This gap, especially acute during peak summer months, has caused frequent power outages that severely disrupt daily life and commercial and industrial activities. For years, Government of Pakistan has explored various options to meet its energy needs through hydropower development. After extensive studies and assessments, the cascade development plan along the Jhelum River was finalized—and the 720 MW Karot Hydropower Project (Karot Project) is one of the key projects within this scheme.
2. It was against this backdrop that after more than a decade of effort, Karot Power Company (Pvt) Ltd. (KPCL or the “Company”) successfully made the project achieve early commissioning, overcoming challenges posed by the COVID-19 pandemic and various technical difficulties, and reached this milestone 54 days ahead of the commercial operation date approved by the Government of Pakistan. Since COD, the plant generates approximately 3.2 billion kWh of electricity annually—sufficient to meet the needs of more than five million local residents (equivalent to the power demand of a medium-sized city). Each year, it saves about 1.4 million tons of standard coal and reduces carbon dioxide emissions by approximately 3.5 million tons. In doing so, it has not only helped ease Pakistan's energy hardship and improved the daily lives of its people, but has also contributed to optimizing the nation's energy mix.
3. Recognizing the complex social and environmental challenges inherent in a large-scale hydropower project, KPCL has adhered to a science-based and rigorous approach. Central to this effort is the development of a comprehensive environmental and social management system—meticulously planned and systematically executed—designed to achieve a harmonious integration of social and economic benefits. During the feasibility phase, a multinational team of experts from China, Pakistan, Australia and beyond was mobilized to conduct in-depth topical studies and compile a *Social and Environmental Impact Assessment Report*. After nine rounds of thematic review and discussion, the detailed feasibility study was completed over a period of eight years. Concurrently, with the extensive participation and guidance of the International Finance Corporation (IFC), the Company established a comprehensive, systematic and actionable Environmental and Social Management System (ESMS) and released a human resources policy and model employment contracts which is tailored to both local legal requirements and practical needs. The EPC contractor, Yangtze Three Gorges Technical and Economic Development Co., Ltd. (TGDC), formulated and implemented a Construction Environmental and Social Management Plan (ESMP), comprising the *Contractor Management Plan*, *Occupational Health and Safety Plan*, *Worker Accommodation Plan*, *Grievance Mechanism* and so on. This framework provided holistic coverage throughout the construction process, ensuring full respect for local labor regulations and cultural practices while systematically safeguarding workers' rights and site safety. An independent environmental and social consultant (IESC) which was engaged by the loan syndicate of Karot Project, together with IFC, regularly reviews the Karot Project's social and environmental monitoring reports,

providing ongoing oversight of the development and implementation of its ESMS to ensure continued alignment with the latest IFC requirements.

4. It is this institutionalized, standardized, and internationally-aligned ESMS that enabled the Karot Project to achieve high standard environmental and social performance during its construction, positioning it as a benchmark for regional sustainable development. The project’s environmental management system, which includes impact-area environmental patrol mechanisms and tailored ecological conservation plans, has placed special emphasis on the systematic protection of threatened species in the watershed, rare plants within the project area, and ancient trees—thus delivering tangible ecological sustainability and has been certified to the ISO 14001 standard. In the sphere of community development, the Company had implemented over 20 public welfare initiatives, including the renovation and expansion of schools and provision of teaching equipment; the construction of health and neonatal care centers, filling critical gaps in primary healthcare; and the repair of roads, installation of water supply wells, and construction of public activity venues, significantly improving living conditions for neighboring communities. At its peak, the project generated nearly 5,000 local jobs, increasing household incomes in the area. Moreover, through its Scholarship Program, 63 local hydropower professionals—equipped with technical expertise and operational skills—were jointly trained by Chinese and Pakistani universities, injecting lasting momentum into the sustainable development of Pakistan's sustainable energy development.
5. In the mean time, Karot Project’s high standard ES management has earned widespread recognition. In 2022, Karot Project received the Excellence for Biodiversity and Conservation and Community Development and Services Award from the National Forum for Environment and Health in Pakistan. That same year, it was also honored by NEPRA with CSR STALWART and Occupational Health, Safety, and Environment Excellence Award. These accolades are authoritative validations of Karot Project’s environmental and social performance.
6. Yet, for all its achievements, this green vision was realized only through perseverance in the face of great difficulty. From the eight years dedicated to feasibility studies, to the complex, six-and-a-half-year construction period, and further compounded by the global disruption of the COVID-19 pandemic, the Karot Project navigated significant challenges across technical, managerial, social, and environmental dimensions—most acutely during the pandemic. Through the close and genuine collaboration of the shareholders, loan syndicates, and all parties involved in construction, the Company steadily improved, overcame challenges, and ultimately successfully brought the plant into operation 54 days ahead of schedule. This journey also provided invaluable opportunities to reflect, learn and accumulate lessons that continue to inform our work. The Company appreciates the distinct perspective offered by the CAO compliance investigation report on Karot Project’s ES management, recognizing its value in facilitating a comprehensive review of lessons learned. However, based on what the project has experienced, the Company also wants to offer our perspectives regarding certain matters raised in the CAO’s findings, with the aim of presenting a more complete and objective picture of Karot Project’s history and reality.

B. KPCL’s Perspective on CAO’s Investigation Findings

KPCL has remained steadfast in its commitment to fair and equitable management, consistently advancing improvements in the working and living conditions of its employees

7. Throughout the development of the Karot Project, the Company has steadfastly adhered to a management philosophy rooted in “people-orientation, fairness and equity,” and resolutely opposes all forms of discrimination. In line with IFC Performance Standards and applicable local laws, it has established an anti-discrimination and zero-tolerance policy, a grievance mechanism, and a dedicated Discrimination Panel. These measures are designed to proactively address any potential discrimination issues and to ensure that all employees are treated equally and enjoy equal working and living conditions.
8. However, given the shortage of hydropower technical expertise in Pakistan, the Company and its EPC contractor—while firmly committed to the principle of localized recruitment—found it necessary to engage a cohort of experienced, highly skilled senior managers and technical professionals from other countries. These individuals were entrusted with managing and mentoring local staff, and as such, the majority assumed positions at the level of foreman and above. Accommodation conditions are equivalent for colleagues of the same rank. Differences in accommodation—such as the provision of air conditioning—are based on job position and grade, consistent with the principle of non-discrimination embodied in ILO Convention No. 111 concerning *Discrimination in Respect of Employment and Occupation (1958)*.
9. Drinking water was provided for all workers in the public areas of their living and working quarters, and water quality testing was regularly conducted internally and also through third party. At the later stage, mineral water supplied by vendors certified by the Pakistani government was additionally provided as the on-site drinking water source, ensuring that all workers have equal access to sufficient, clean and safe drinking water. Meanwhile, a well-structured shuttle bus system was established at site, providing scheduled services between the dormitories and construction sites. Both drivers and workers receive traffic safety training, so as to guarantee equitable, safe, and reliable commuting services for all employees.
10. In August 2020, the 12th IESC Report recorded that, during IESC’s on-site consultations with the Worker Council, the Worker Council acknowledged that a dedicated discrimination assessment had been conducted, and confirmed that it had not identified any instances of discrimination against Pakistani workers.
11. In addition, the workers’ accommodation condition has been continuously improved throughout the construction phase. These ongoing improvements were consistently documented in IESC’s 3rd, 9th, 11th, 15th and 16th reports.

C. KPCL Respects Workers’ Legal Rights and Actively Supports Freedom of Association

12. Throughout the lifecycle of Karot Project, the Company and its EPC contractor have worked in full partnership with Pakistan’s Registrar of Trade Unions (RTU) for all union-related processes. A comprehensive policy framework has been established and communicated to uphold workers’

right to freedom of association—including the issuance of guidance manuals that set out both the legal principles and relevant statutory frameworks, a whistleblower and non-retaliation policy, the inclusion of explicit freedom of association clauses in employment contracts, dedicated awareness and capacity-building training sessions, and informational postings on public notice boards.

ALU's Delay in registration

13. According to Pakistan law, ALU's registration is entirely determined by RTU based on its legal authority. As acknowledged in the CAO report, the delay in registering ALU—which took more than a year following its application—arose from a jurisdictional dispute between RTU and ALU, a matter that ultimately proceeded to judicial determination. The CAO itself conceded that, on the basis of the evidence available, it cannot determine whether KPCL's engagement with the union amounted to unlawful interference or the legitimate exercise of its rights.

Security Force and ALU

14. It is a matter of public record that Pakistan continues to face serious security threats, including terrorist attacks. In response to this reality, the Government of Pakistan has taken the decision to deploy military personnel across all China-Pakistan Economic Corridor (CPEC) projects as a unified security measure to safeguard the lives of all personnel in project. Karot Project has always placed the safety of its workforce above all else, respects and abides by this nationally mandated security framework, and actively cooperates with the military in managing site access declarations.
15. The staff of the Company's shareholders, IFC, and CAO, who are non-site personnel, have all adhered to the aforementioned unified security protocol of the military when accessing the site. In the case where the union official of ALU are not site personnel, they should logically follow the same unified security requirements as other non-site personnel. However, regrettably, despite being aware of the legitimacy and seriousness of these requirements, ALU still made requests for special privileges. During its 2021 field mission, the independent labor consultant commissioned by IFC to assess freedom of association at Karot project explicitly observed that “Union officials, not employed by Karot, are subject to the same security requirements as other visitors in terms of visiting the site. The union sees these as restrictive and has not pursued access.” The consultant further noted that “No documentary evidence or had worker testimony that corroborates the allegation of victimization of union members.The ALU was not able to provide details of any dismissed workers.” In this context—and particularly where the CAO acknowledges it was unable to independently verify the facts—it is neither objective nor fair to conclude that the presence of security forces created a “climate of fear” that impeded union activities.

Absence of Collective Bargaining Agreement

16. The Company does not dispute that no collective bargaining agreement (CBA) has been concluded on site. However, this is not attributable to any action or omission on the part of the project. The Company and its contractors have consistently cooperated with the relevant authorities in supporting union registration, nomination, and related activities, in full compliance with applicable laws and procedures. Yet under *Pakistan's Industrial Relations Act 2012*, the processes of union registration, membership verification, and the certification of a Collective

Bargaining Agent are statutory functions vested exclusively in the RTU. A CBA can only be negotiated once a duly certified bargaining agent has been elected by workers through a formal referendum.

17. Although ALU has not been certified as the project’s collective bargaining agent under the law, the Company and its contractors have nevertheless engaged in repeated consultations and negotiations with ALU on a range of labor issues in the interest of protecting workers’ well-being. In parallel, the project has institutionalized a robust worker grievance mechanism and established the Worker Council & Management Committee (WCMC). Through these channels, approximately 1,500 worker complaints were successfully resolved during the construction phase—covering matters such as wage payment, working conditions, occupational health and safety, recruitment, and termination. All relevant documentation and evidence were made fully available to the CAO during its investigation. It is therefore a matter of sincere regret that the project’s sustained and good-faith efforts in this regard have not been fairly or fully reflected in the CAO’s report.

D. KPCL Upholds the Principle of “Safety First” and Spares No Effort in Protecting Workers’ Occupational Health and Safety

18. As the CAO report rightly acknowledges, Karot Project has overcome a series of formidable challenges and continuously strengthened its occupational health and safety management system, including the provision of personal protective equipment (PPE) to all workers free of charge.
19. When the COVID-19 pandemic suddenly swept the globe in early 2020, the Company responded swiftly and decisively. Despite acute space constraints at the project site, KPCL leased additional accommodations in Islamabad and constructed new temporary dormitories nearby the site to ensure that workers had adequate facilities for isolation. Faced with severe global shortages of medical supplies, KPCL coordinated the shipment of surgical masks and essential medicines from China, and dispatched a professional medical team to safeguard the health of every individual who built this project. The former Prime Minister of Pakistan Imran Khan expressed his high recognition of the project’s continued progress and achievements under such difficult circumstances through his personal social media. The CAO itself observed that the project’s response to the COVID-19 crisis was both swift and consistent with good international industry practice.
20. Yet our commitment to occupational health and safety extends far beyond pandemic response. Throughout construction, the Company maintained rigorous on-site safety inspections and monitoring. With a deep sense of responsibility, we acted promptly to correct any identified issues or deviations—measures that enabled Karot Project to achieve a low accident rate and establish itself as a benchmark for occupational health and safety management in Pakistan’s hydropower sector. In 2022, Karot Project attained the Occupational Health, Safety, and Environment Excellence award scoring 95% marks through independent evaluation by National Electric Power Regulatory Authority (NEPRA) amongst 200 power generation companies in Pakistan—a testament to the unwavering priority we place on the well-being of our people.

E. KPCL Actively Safeguards Workers' Legal Rights and Continuously Improves Labor Management

21. Respect for the legal rights and interests of workers has always been a fundamental commitment of the Company. Comprehensive human resources policies and employment contracts have been developed, regularly updated, and submitted to IFC for review in a timely manner—ensuring full alignment with IFC Performance Standards throughout the project lifecycle. Yet the sheer scale and complexity of a major infrastructure project, compounded by a vast network of subcontractors and high workforce mobility, presented immense challenges to human resources management. Worse still, the once-in-a-century COVID-19 pandemic outbreak also severely disrupted project implementation at its most critical juncture.
22. The outbreak coincided with the peak of construction activity, when the site was densely populated with workers. Across the globe, the pandemic sowed anxiety, fear, and uncertainty—and our workforce was no exception. In response, multiple options were offered to employees, including remaining on-site or returning home while on standby, making pandemic containment and protecting workers' healthy the absolute priority during this period.
23. Once epidemic control measures were firmly in place, the Company and its EPC contractor acted promptly to implement some actions. Public announcements were published in newspapers and on social media platforms, notifying former workers that they could contact the company to claim severance pay. Ultimately, few workers submitted compensation claims, and all have been fully settled.
24. Parallel to these efforts, KPCL and its contractors have continuously advanced its labor management practices. A leading UK-based consultancy firm was engaged as an independent advisor to conduct a comprehensive assessment of the project's labor management system and to deliver targeted training—covering labor policies and applicable laws, the grievance mechanism, anti-discrimination, anti-harassment, and anti-retaliation. Through rigorous improvements to attendance and payroll records, 100% employee registration with the Pakistan's Employees' Old-Age Benefits Institution (EOBI) and Social Security Institute (PESSI), regular labor audits, and the prompt correction of identified gaps, the project has achieved a marked elevation in workers' terms and conditions of employment. These sustained efforts were ultimately recognized by the independent consultant, who affirmed that the project is majorly in compliance with IFC Performance Standards.

F. KPCL Establishes a Fully Functional Grievance Mechanism and Resolves Worker Complaints in a Timely Manner

25. From the outset, the Company and its EPC contractor took proactive steps to establish a worker grievance mechanism, alongside the Worker Council and Management Committee—demonstrating a genuine commitment to hearing and addressing worker concerns. A series of targeted measures were implemented to strengthen the system, included dedicated training and capacity-building sessions on grievance procedures, the introduction of incentive mechanisms to

encourage subcontractor participation, continuous maintenance and monitoring of grievance records, and the convening of monthly review meetings. The results speak for themselves. Grievance records maintained by the EPC contractor show that all 1,491 worker complaints lodged during the construction phase have been closed. Since 2021, the number of complaints has dropped significantly—clear evidence that workers are now familiar with the mechanism and that it is functioning effectively.

26. All relevant grievance handling records have been shared with both IFC and the CAO. As the CAO report itself acknowledges, under IFC’s ongoing supervision, the project’s grievance mechanism has evolved to meet the requirements of IFC Performance Standard 2.

G. KPCL’S Commitment

27. KPCL remains steadfast in its commitment to sustainable hydropower development and the pursuit of lasting social value. From the very beginning, KPCL has been guided by a deeply held conviction—build one power station, drive regional economy, improve ecological environment, and benefit local communities. This philosophy has shaped every phase of the Karot Project and continues to illuminate the path forward. Now that Karot Project has entered its operation and maintenance phase, its environmental and social management system has matured into a more robust and finely tuned framework. The Company remains fully committed to managing these responsibilities with the same rigor and integrity, in strict adherence to IFC Performance Standards and applicable host country laws.
28. Yet our ambition does not end with Karot Project. The Company is dedicated to distilling the lessons learned and best practices cultivated over the course of this journey—shaping them into a standardized, replicable, and scalable model of ES management. It is our hope and intention to apply this model in future global projects and to share it openly with partners and contractors across the industry. In doing so, we seek to contribute to the continuous elevation of environmental and social performance in international hydropower development, and to advance the sustainable future that we all share.

Disclaimer

The IFC Management Response is provided in response to the Investigation Report of the Office of the Compliance Advisor Ombudsman (CAO) relating to complaints of alleged non-compliance by IFC with its Policy on Environmental and Social Sustainability in a project supported by IFC finance or investment.

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