

CAO ASSESSMENT REPORT

Regarding the Seventh Complaint Received in Relation to IFC's Investment in Karot Power Company Ltd. (IFC #[36008](#))

May 2023

Office of the Compliance Advisor Ombudsman
for
the International Finance Corporation and
the Multilateral Investment Guarantee Agency
www.cao-ombudsman.org

About CAO

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), members of the World Bank Group. CAO reports directly to the IFC and MIGA Boards of Executive Directors. CAO's mandate is to facilitate the resolution of complaints from people who may be affected by IFC and MIGA projects in a manner that is fair, objective, and constructive; enhance environmental and social outcomes of projects; and foster public accountability and learning to enhance the environmental and social performance of IFC/MIGA and reduce the risk of harm to people and the environment.

For more information, see www.cao-ombudsman.org

About CAO Assessments

Any person who believes they may be harmed by an IFC or MIGA project can lodge a complaint to CAO. We apply three simple eligibility criteria to accept a complaint. For eligible complaints, we then conduct an assessment of the concerns with the Complainant(s), project sponsor, and other relevant stakeholders. Once a complaint is determined to be eligible, we review the concerns raised in it. This assessment is conducted in consultation with the Complainant(s), IFC and MIGA client and project teams, and other relevant stakeholders.

Purpose

The objective of the CAO assessment process is to develop a thorough understanding of the issues the complaint raises, work to understand all perspectives, engage with all key stakeholders to the complaint, consult with them to determine the process they choose to address the complaint, and consider the status of other grievance resolution efforts made to resolve the issues raised. The CAO assessment process does not entail a judgment on the merits of the complaint; rather, it seeks to understand the facts and empower those involved to make informed decisions on how to address the issues raised.

TABLE OF CONTENTS

LIST OF ACRONYMS 1

1. OVERVIEW.....2

2. BACKGROUND 2

 2.1 The Projects 2

 2.2 The Complaint 3

3. ASSESSMENT SUMMARY 3

 3.1 Methodology 3

 3.2 Summary of Views..... 3

ASSESSMENT CONCLUSION AND NEXT STEPS..... 4

APPENDIX A. CAO COMPLAINT-HANDLING PROCESS.....7

LIST OF ACRONYMS

ALU	Awami Labor Union
CAO	Office of the Compliance Advisor Ombudsman
CBA	Collective Bargaining Agreement
CPEC	China-Pakistan Economic Corridor
CSAIL	China Three Gorges South Asia Investment Limited
CTGC	China Three Gorges Corporation
EPC	Engineering, Procurement and Construction
ESIA	Environmental and Social Impact Assessment
GRM	Grievance Redress Mechanism
IAM	Independent Accountability Mechanism
IFC	International Finance Corporation
KHPP	Karot Hydro Power Project
KPCL	Karot Power Company Limited
RTU	Registrar Trade Union
SHU	Social Hydro Labor Union
TGDC	Yangtze Three Gorges Technology and Economy Development Company
WCMC	Worker's Council Management Committee

OVERVIEW

In August 2022, CAO received a complaint from the president of the Social Hydro Labor Union (SHU, or the “Complainant”) at the Karot Hydro Power Project (KHPP or the “Company”) in Pakistan. The main issues raised in the complaint are: (1) that despite complying with the company’s COVID-19 entry protocols, the Complainant was not allowed entry to the project site; (2) that there is a lack of communication between laborers and company management regarding salary and bonus payments, and health and safety issues, and an absence of an authority to resolve these issues; and (3) that the two active labor unions are not allowed to participate in a referendum to reach a collective bargaining agreement (CBA).¹

The complaint relates to the active IFC project of an A-loan of up to US\$100 million to KPCL.

In August 2022, CAO determined that the complaint met its three eligibility criteria. In accordance with a provision in the CAO policy², the complaint was referred to IFC at the Complainant’s request. This provision allows for good faith efforts to be made with IFC and its client to address the issues raised in the complaint before initiating CAO’s assessment.³ On December 14, 2022, the Complainant expressed his desire to resume the processing of the complaint by CAO, following engagements with IFC and their client through the referral process.

During CAO’s assessment phase, the Company and the Complainant engaged with each other to discuss the issue related to access to the project site to carry out labor union activities. The CAO Policy⁴ states that if the Parties consent, they may engage directly with one another during the assessment process to resolve the issues raised in the complaint. Such engagement may take place without the direct involvement of CAO. As CAO was finalizing the assessment report, the Complainant confirmed that he was able to carry out visits to the project site to meet with workers. However, the Complainant was not granted a permanent pass or an entry pass for repeat visitors and, as such, this issue remains pending. The issue related to the referendum also remains unresolved.

Both parties expressed an interest in engaging in a CAO dispute resolution process to address all issues raised in the complaint.⁵ In accordance with the CAO Policy, the complaint will now be handled by CAO's Dispute Resolution function.

This Assessment Report provides an overview of the assessment process, including a description of the project, the complaint, the assessment methodology, and next steps.

BACKGROUND

2.1 The IFC Project

IFC has an active project ([#36008](#)) with Karot Power Company Ltd. (KPCL, or “the Company”), a special-purpose vehicle incorporated in Pakistan and majority-owned by China Three Gorges South Asia Investment Limited (CSAIL). IFC is providing an A-loan of up to \$100 million for the

¹ CBA or collective bargaining agreement is the labor contract between a union representing employees and the employer.

² See paragraph 39 of the [CAO Policy](#)

³ Ibid

⁴ Paragraph 55 of the CAO Policy states that if the Parties consent, they may engage directly with one another during the assessment process to resolve the issues raised in the complaint. Such engagement may take place without the direct involvement of CAO. CAO’s assessment report will summarize the outcomes of such engagement. Where appropriate, and within the scope of their respective mandates and with the Parties’ consent, IFC/MIGA may support the constructive resolution of issues related to the complaint. Where the complaint issues are resolved, and subject to the Complainant’s consent, CAO will issue an assessment and conclusion report to close the case.

⁵ Even though the Complainant was granted access to the project site, the permanent pass or an entry pass for repeat visitors has not been granted. As such, this issue will be addressed during the dispute resolution process.

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

2.2 The Complaint⁶

In August 2022, CAO received a complaint from the president of the Social Hydro Labor Union (SHU) at the Karot Hydro Power Project (KHPP). The main issues raised in this complaint are: (1) that despite complying with the company’s COVID-19 entry protocols, the Complainant was not allowed entry to the project site to talk to the employees; (2) that there is a lack of communication between laborers and Company management regarding salary and bonus payments, and health and safety issues, and an absence of an authority to resolve these issues; and (3) that the two active labor unions, SHU and the Awami Labor Union (ALU), are not allowed to participate in a referendum to reach a collective bargaining agreement (CBA). The Complainant provided CAO with Social Hydro Labor Union’s registration by the Registrar of Trade Unions at Rawalpindi from August 30, 2019. He also provided a list of SHU union members and their roles.

In August 2022, CAO determined that the complaint met its three eligibility criteria. In accordance with the CAO Policy, the complaint was referred to IFC at the Complainant’s request. According to IFC, during the referral process IFC established contact with the Complainant to understand the nature of the grievances and explained their process. IFC reviewed information received by both the Complainant and the Company and received the Complainant’s consent to share his complaint with their client. IFC noted that they engaged with the Complainant via WhatsApp and during in-person site supervision visits at the project site. IFC further indicated that they discussed the issues raised with Company representatives on several occasions and carried out follow-up meetings in November 2022 with the Company and their labor consultants, who reviewed the process and presented their assessment.

On December 14, 2022, the Complainant expressed his desire to resume the processing of the complaint by CAO, following engagements with IFC and their client through the referral process. He indicated that, despite engagements with IFC that included in-person meetings with IFC representatives at the project site and submission of the requested information, no action was taken, and he was therefore dissatisfied with their process.

The issues raised in the complaint and during the assessment process by the Complainant and KPCL are described in further detail below.

ASSESSMENT SUMMARY

3.1 Assessment Methodology and Findings

The aim of the CAO assessment process is to clarify the issues and concerns raised by the Complainant(s), gather information on the views of different stakeholders, and determine whether the Complainant(s) and the IFC Client would like to pursue a dispute resolution process facilitated by CAO, or whether the complaint should be handled by CAO’s Compliance function for appraisal of IFC’s and MIGA’s performance (see Appendix A for CAO’s complaint-handling process).

⁶ CAO is currently conducting a compliance investigation for [Karot-02](#) and [Karot-03](#) complaints. The issues alleged in this complaint are similar in nature to those being addressed under the compliance review. However, the Complainant is representing a different union. CAO also has recently determined eligible but referred to IFC three additional complaints related to this project ([Karot-04, 05, and 06](#)), at the complainants’ request. While CAO was finalizing this assessment report, the referral process between IFC and the complainant in Karot 04 had ended and the Complainant expressed his desire to resume the CAO process. Therefore, the Karot 04 case is currently in the CAO assessment phase and Karot 05 and 06 cases are being addressed directly by IFC. CAO believes that the issues raised in the six active cases related to the KPCL are systemic in nature.

In this case, CAO's assessment of the complaint included:

- a desk review of project documentation;
- virtual meetings and email communications with the Complainant;
- virtual meetings and email communications with the representatives of KPCL; and
- virtual meetings and email communications with IFC project teams.

This report summarizes the views heard by the CAO team from the parties and describes the next steps based on their decisions.

3.2 Summary of Views

Complainant's perspective

The Complainant is the president of the Social Hydro Labor Union (SHU) at the Karot Hydro Power Project in Pakistan. The Complainant indicated that he began the labor union process in 2017, because he became aware of a lack of communication between laborers and Company management, salary and bonus payment problems, health and safety issues, and an absence of an authority to resolve these issues. The Complainant presented information to CAO illustrating that the SHU was officially registered by the Registrar of Trade Unions (RTU) at Rawalpindi on August 30, 2019. According to the Complainant, despite registering his labor union, the Company's management has not accepted his authority to negotiate labor issues on behalf of workers. In January 2022, the Complainant noted that 90 percent of the project was finished and that many laborers had already left the job. However, 10 percent of employees are still active.

During the assessment phase, the Complainant also noted delay tactics presumably by the Company and by the RTU related to the holding of a referendum between the two active unions at KHPP. The union that wins the referendum would then enter into a collective bargaining agreement and thus be able to advocate on behalf of the workers to resolve their labor-related issues. According to the Complainant, the referendum is a top priority for him. He noted that even though the RTU set a date for the referendum to take place, it is continuously postponed, presumably by the RTU themselves. The Complainant did not indicate possible reasons for the postponement of the referendum.

The complaint further indicated that the Company took strict actions to not allow the Complainant access to the project site. However, during CAO's assessment phase, the Complainant confirmed that, on February 23 and 28, and April 2, 2023, he was able to meet with the Company's managers at the project site and with some workers to get information related to the project and their labor issues.⁷ He informed CAO that COVID-19 restriction protocols have ended and, as such, the restriction of movement at the site has also ended. During his visits to the project site, the Complainant indicated that the company provided him with a one-day pass authorizing his entry to meet with laborers and discuss their potential grievances. The Complainant sent pictures of his on-site meetings with the Karot team and with workers during his visit in April 2023. The Complainant indicated that he is supposed to be granted a permanent pass to access the project site, which remains outstanding. As such, CAO will continue to follow up on the Complainant's continuous access to the project site to meet with laborers in his capacity as labor union president.

In March 2023, the Complainant indicated his interest in participating in a CAO-facilitated dispute resolution process to resolve the issues raised in his complaint that are related to

⁷ Paragraph 55 of the CAO policy states that if the Parties consent, they may engage directly with one another during the assessment process to resolve the issues raised in the complaint. Such engagement may take place without the direct involvement of CAO.

access to the project site to carry out labor union-related activities, and the holding of a referendum so that the winning labor union can enter into a collective bargaining agreement to advocate on behalf of workers.

Clients' perspective

In response to the concerns raised in the complaint, KPCL shared a detailed presentation with CAO explaining the Company's policy on access to the project site, restrictions by the army on free access to the project site, engagement with trade unions and with the Registrar of Trade Unions, and organizational behavior toward workers.

The Company noted that all Karot project sites and offices have a specific entry protocol that requires all employees or visitors to present their ID cards and have their basic information recorded to enter the project site. Since October 2022, COVID-19 restrictions related to project site entry have been lifted, and COVID testing requirements are no longer required for visitor entry.

KPCL added that the Government of Pakistan is tasked with providing security to the project, as it falls under the China-Pakistan Economic Corridor (CPEC). As such, the Pakistani army provides security to the project site. The Company indicated that correspondence was sent to KHPP's security officer in December 2022, instructing them to allow the free movement of labor union secretaries at the project, including the president of SHU. The Company also noted that the Complainant was granted entry to the project site in February and April 2023 and has been assigned a direct focal point from KPCL to facilitate his entry. Regarding the permanent pass for entry, KPCL indicated that the project's security does not grant permanent passes, due to their high security protocols. They noted that everyone, including employees, visitors, vendors, or any other stakeholder who needs to visit the site for any purpose, has to provide details of their visit to the project security department through a letter from project management and undergo a general security check at the main entrance.

The Company indicated that they would be in regular contact with the two registered trade unions, SHU and ALU, and held in-person meetings in March, April, and July 2022 and February and April 2023 with the Complainant at the project site. They also said they would be in regular contact with the Office of the Registrar of Trade Unions (RTU). According to the Company, the RTU requested that the Complainant submit the Annual Returns and proceedings of the election of the Office Bearers, which was not done. KPCL further noted that no written complaint was submitted to the Company or to the RTU by the Complainant. Of note, KPCL indicated that the RTU is responsible for and has the authority to set the date for the labor union referendum. KPCL stated that they are facilitators of the referendum at the request of RTU and, as such, they have to follow RTU's regulations. KPCL noted that they cannot make the decision for the labor union referendum on their own.

Regarding the company's organizational behavior toward workers, KPCL informed CAO that they developed and implemented 19 labor policies and procedures, aligned with local regulations and IFC Performance Standards, which were reviewed and accepted by IFC. These are available in English, Chinese, and the local language and posted throughout the camps and work sites. These labor policies are related to anti-reprisal, COVID-19, freedom of association, and freedom of movement, among other issues. The company explained their Grievance Redress Mechanism (GRM) to CAO and noted that all complaints received by the GRM in 2022 have been resolved. A Worker's Council Management Committee (WCMC) has been established, workers' handbooks have been developed in the local language and

distributed among employees, and 51 on-site trainings on labor rights and policies have been provided to workers.

KPCL reiterated that they are open to corrective action and to positive relations with communities and stakeholders. The Company confirmed its interest in engaging in a CAO-facilitated dispute resolution process to resolve all issues raised in the complaint.

ASSESSMENT CONCLUSION AND NEXT STEPS

During CAO's assessment, both the Complainant and KPCL's representatives expressed an interest in engaging in a CAO Dispute Resolution process to address all issues raised in the complaint. In accordance with CAO's Policy, the case will now be transferred to CAO's Dispute Resolution function.

APPENDIX A. CAO COMPLAINT-HANDLING PROCESS

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

As per the IFC/MIGA Independent Accountability Mechanism (CAO) Policy,⁸ the following steps are typically followed in response to a complaint that is received:

Step 1: **Acknowledgment** of receipt of the complaint.

Step 2: **Eligibility**: Determination of the complaint's eligibility for assessment under the mandate of CAO (no more than 15 business days).

Step 3: **Assessment**: Assessing the issues and providing support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 90 business days, with the possibility of extension for a maximum of 30 additional business days if after the 90-business day period (1) the Parties confirm that resolution of the complaint is likely; or (2) either Party expresses interest in dispute resolution, and there is potential that the other Party will agree.

Step 4: **Facilitating settlement**: If the Parties choose to pursue a collaborative process, CAO's Dispute Resolution function is initiated. The dispute resolution process is typically based on or initiated by a Memorandum of Understanding and/or mutually agreed-upon ground rules between the Parties. It may involve facilitation/mediation, joint fact finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goals. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the Parties affected.⁹

OR

Compliance Appraisal/Investigation: If the Parties opt for an investigative process, the complaint is transferred to CAO's Compliance function. The complaint is also transferred to the Compliance function when a dispute resolution process results in partial or no agreement. At least one Complainant must provide explicit consent for the transfer unless CAO is aware of concerns about threats and reprisals. CAO's Compliance function reviews IFC/MIGA's compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate following a three-step process. First, a compliance appraisal determines whether further investigation is warranted. The appraisal can take up to 45 business days, with the possibility of extending by 20 business days in exceptional circumstances. Second, if an investigation is warranted, the appraisal is followed by

⁸ For more details on the role and work of CAO, please refer to the IFC/MIGA Independent Accountability Mechanism (CAO) Policy: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/889191625065397617/ifc-miga-independent-accountability-mechanism-cao-policy>

⁹ Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President, and Board of the World Bank Group, and the public, that CAO Dispute Resolution has concluded the dispute resolution process and transferred it to CAO Compliance for appraisal.

an in-depth compliance investigation of IFC/MIGA’s performance. An investigation report will be made public, along with IFC/MIGA’s response and an action plan to remediate findings of noncompliance and related harm. Third, in cases where noncompliance and related harm are found, CAO will monitor the effective implementation of the action plan.

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

Step 6: **Conclusion/Case Closure**

