

CAO ASSESSMENT REPORT

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

August 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 submit a complaint to CAO. To determine whether a complaint is eligible, we apply three simple criteria. If the complaint is eligible, we conduct a formal assessment in consultation with the Complainant(s), IFC and MIGA Client and project teams, and other relevant stakeholders.

The CAO assessment process aims 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.

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ACRONYMS

AJK	Azad Jammu and Kashmir
CAO	Office of the Compliance Advisor Ombudsman
CLO	Community Liaison Officer
HR	Human Resources
IFC	International Finance Corporation
KHPP	Karot Hydro Power Project
KPCL	Karot Power Company Limited
SOP	Standard Operating Procedure

OVERVIEW

In May 2022, the Office of the Compliance Advisor Ombudsman (CAO) received a complaint on behalf of eight members of the Azad Jammu and Kashmir (AJK) local community (the “Complainants”) located near the Karot Hydro Power Project (KHPP, or the “project”). The main issues raised in their complaint are related to alleged unfair hiring practices at the Company, such as hiring based on favoritism and nepotism; discrimination against local populations because of their community of origin; lack of transparency in the recruitment process; and incidents of unfair dismissal and forced resignation of those who were employed. The Complainants indicated that several other community members are also affected by the Company’s unfair labor practices.

The complaint relates to the active International Finance Corporation (IFC) project of an A-loan of up to US\$100 million to Karot Power Company Limited (KPCL, “Client” or the “Company”).

In June 2022, CAO determined that the complaint met its three eligibility criteria. In accordance with a provision in the CAO Policy,¹ the complaint was referred to IFC at the Complainants’ 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.² On March 27, 2023, the Complainants expressed their desire to resume the processing of the complaint by CAO, following engagements with IFC and its Client through the referral process.

Both parties expressed an interest in engaging in a CAO dispute resolution process to address the issues raised in the complaint. 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), 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 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 Complaint³

In May 2022, CAO received a complaint from the president of the Karot Dam Action Committee in Pakistan on behalf of eight people living in the Azad Jammu and Kashmir (AJK) local community. The main issues raised in the complaint refer to (1) alleged unfair hiring practices by KPCL, including lack of transparency in its hiring process, and not hiring on the basis of professional skills; and (2) alleged discrimination on the basis of community of origin.

According to the complaint, there are Memoranda of Understanding (MoUs) and project agreements that are supposed to guarantee the provision of jobs to local communities based

¹ See paragraph 39 of the [CAO Policy](#).

² Ibid.

³ CAO is currently conducting a compliance investigation for [Karot-02](#) and [Karot-03](#) complaints and a dispute resolution process for the [Karot 07](#) complaint. CAO also has recently determined two additional complaints related to this project ([Karot-05](#), and [Karot-06](#)) to be eligible, but referred them to IFC, at the Complainants’ request. The Karot 05 and 06 cases are being addressed directly by IFC.

on merit. The complaint alleges that many local, highly qualified, and experienced professional engineers from the AJK area are not being considered for jobs at the KHPP despite having the required qualifications.

The Complainants further alleged that the Company's hiring process violates international laws. The complaint indicates that there have been incidents of nepotism at the KHPP as top management promotes their favorites based on ethnicities and communities of origin. In the complaint filed with CAO in May 2022, the Complainants indicated that they would like the project to hire them but are also aware that the construction phase of the project was due to end in June/July 2022 and that jobs would be even more limited.

2.3 IFC's Referral Process

In June 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 Complainants' request. According to IFC, during the referral process, the project team acknowledged the complaint and continuously engaged with the representative of the Complainants from June 2022 to March 2023. This included an in-person meeting with the Complainants' representative, community members, and other stakeholders during a site visit in September 2022. The Complainants' representative also met with Company officials on several occasions throughout the referral process. Additionally, during IFC's site visit in September 2022, the Complainants' representative was informed about options to continue to engage with the project through its grievance mechanism and other stakeholder activities.

IFC also worked directly with the Company to facilitate a direct response to the Complainants' representative. KPCL communicated to IFC that they had hired an expert to review the hiring process and the records from its Human Resources department (HR) on the hiring process. The expert's report concluded that the process was in line with KPCL's HR's policies and procedures and that there was no evidence of systemic discrimination. The Company communicated these conclusions in an email to the Complainants' representative on August 6, 2022. In addition to KPCL's grievance response and HR policy review process, IFC conducted another expert assessment to analyze KPCL's recruitment policies and practices in relation to the requirements outlined in IFC Performance Standard 2 on Labor and Working Conditions. IFC's review was conducted by project Social Specialists and an experienced Labor Consultant. The issue was also reviewed by the external lenders' Environmental and Social Advisor, including an experienced Pakistani Labor Expert. While areas of opportunity for improvement were identified, IFC did not find evidence of irregularities in the respective hiring processes or systemic discrimination in KPCL's hiring procedures or practices and informed the Complainants' representative of their findings in March 2023.

On March 9, 2023, IFC informed the Complainants' representative of the findings of the process. On March 22, 2023, IFC informed the CAO of its decision to close its engagement with the Complainants after their representative expressed disagreement with IFC's findings.

On March 27, 2023, the Complainants expressed their desire to resume the processing of the complaint by CAO, following engagements with IFC and the Company through the referral process.

The issues raised in the complaint and during the assessment process by the Complainants 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 a description of CAO's complaint-handling process).

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

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

Due to the political and social unrest that occurred in Pakistan following the arrest of the former Prime Minister, Imran Khan, on May 9, 2023, the assessment team was unable to travel to meet with the parties in person. The CAO team has been liaising closely with the World Bank Group's Country Office in Pakistan regarding the security situation and possible mission travel.

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

Complainants' perspective

The Complainants are eight members of the AJK local community located near the KHPP. During the assessment phase, the CAO assessment team managed to contact seven of the eight Complainants, who explained their different situations related to KPCL's hiring and employment practices.⁴ During the phone calls and meetings with these seven Complainants, they raised concerns related to unfair hiring practices at KPCL, such as hiring based on favoritism and nepotism, discrimination against AJK local populations, unfair dismissal, and forced resignation from their jobs at KPCL. The Complainants indicated that several other AJK community members are also affected by KPCL's unfair labor practices.

The Complainants indicated that the Company verbally promised local community members jobs that they never delivered. The Complainants stated that candidates are not hired based on a meritocratic basis but rather based on personal connections. Some of the Complainants argued that KPCL hires employees for positions for which they are not qualified. For example, they indicated that the Company does not comply with national regulations such as employing engineers accredited by the Pakistan Engineering Council (PEC). The Complainants alleged that engineers were hired by the Company who did not meet the PEC requirements and thus did not conform to Pakistani law. Presumably they were hired because they were awarded a scholarship program by the Company. The Complainants further alleged that locally qualified people were not hired by KPCL even though they were more experienced and were accredited by the PEC. Additionally, several of the complainants indicated that KPCL does not properly advertise its jobs, nor do they have an adequate hiring mechanism. The Complainants indicated that, often, when a job opening was available, it would be communicated to some

⁴ Despite several attempts, CAO could not communicate with the eighth complainant due to connectivity issues.

people but not to everyone in the local communities. Applying for jobs would be done through personal contacts as there was no public advertising of job vacancies. One of the Complainants indicated that the Company could resolve some of the informational gaps that they are facing by establishing an appropriate system to publicize and track applications. The Complainants also requested feedback on why candidates from the AJK local community were not selected for the positions for which they applied. The Complainants stated that several engineers from the AJK area and neighboring communities have left AJK because they have been unable to find employment locally.

One of the Complainants informed the CAO that he is a qualified and skilled engineer living within the project's area of influence and that despite having applied several times for positions at KPCL, he has not been hired. The Complainant indicated that he applied for a vacancy in the electrical maintenance department, but someone who was a fresh graduate got the job, even though he has six years of relevant experience. He argued that the reason he was not hired was discrimination based on his community of origin, as the Company does not want to hire people from the AJK area. He also alleged that there is an unwritten policy at KPCL that people from the AJK area should not be employed in any capacity. Nonetheless, in June 2023, the Complainant indicated that since the complaint had been at CAO, the Company has started publicly advertising its vacancies through social media and on posters posted on streets and in the town bazaar. The Complainant noted that he recently applied for the position of Office Engineer that was advertised by the Company and was offered an interview for the job. According to him, he performed well during the interview, provided technical answers, and demonstrated his expertise. At the time this assessment report was being finalized, CAO had not received any further information about the outcome of the recruitment process for this Complainant.

Another Complainant indicated that he is an electrical engineer who has applied several times to KPCL but has never been shortlisted. He believes that his applications were not successful because of KPCL's lack of transparency in the hiring process.

Another Complainant informed the CAO that he was previously employed by the Company for four years, from March 2017 to September 2021, as a flagman, and then as a Health and Safety Officer at the dam site. He claimed that he was asked to resign by KPCL presumably because he requested personal leave. He also indicated that he applied several times thereafter at KPCL but was never shortlisted. Another Complainant, who had been employed at KPCL as a site supervisor, indicated that he was also unfairly dismissed, presumably because he asked for a salary increase. He stated that the wage he received was an inadequate living wage.

Further, another complainant who had worked as a Safety Engineer and also a Community Liaison Officer (CLO), claimed that he was "forced to resign" from his job at as a Safety Engineer, presumably because he raised the issue of the Company's unfair hiring process. He stated that once he became vocal about KPCL's hiring practices and the lack of transparency in the recruitment process through his role as a CLO, his workload increased, and the CLO position was taken away from him. He informed CAO that there are no proper procedures for dismissal and suggested that there should be rules in place so that workers are not forced to resign.

Some of the Complainants confirmed that they participate in community meetings with the Company to discuss various grievances, but they noted that several promises made by the Company have not been followed up or implemented. They added that there are no written

commitments during these meetings, and when Company representatives change, all prior discussions and promises are abandoned.

In June 2023, the seven Complainants who met with CAO confirmed their interest in engaging in a CAO-facilitated dispute resolution process to resolve the issues raised in the complaint.

Client's perspective

In response to the concerns raised in the complaint, KPCL shared detailed information with CAO explaining its recently revised Standard Operating Procedure (SOP) on hiring practices, the Company's hiring policy, internal tools regarding workers' grievance mechanism and labor-related training, and its engagements with the local communities.

KPCL explained that there is no Memorandum of Understanding (MoU), as alleged by the Complainants, related to the hiring of local communities. Of note, KPCL provided CAO with the Standard Operating Procedure (SOP) related to hiring, which had been updated for the Operation and Maintenance (OM) phase in March 2023, approved by senior management, and shared with government offices and communities. The SOP was updated to reflect changes in the project as it transitioned from construction into operation and maintenance. KPCL indicated that the revised SOP related to hiring was another major step considering the local community as a major stakeholder. The revised SOP indicated that open employment positions will be advertised through local newspapers, publicized through the Assistant Commissioner's offices, disseminated to the local communities in the Community Relations Management Plan (CRMP) meetings, and published on social media. The SOP outlined the recruitment principles, which state that "as far as possible and practicable, the Company shall and/or cause its Contractors to employ suitably qualified staff from within the Project area or its immediate vicinity. The quality of the workforce hired will not be compromised, specifically in cases of skilled or semi-skilled workforce. If the Company is unable to find the right and appropriate candidate for the available vacant position(s), the Company may consider hiring from outside the area of the Project and the surrounding communities. The skilled and semi-skilled vacant position(s) must be filled strictly in accordance with the job description of the available position(s). The Management of the Company has the exclusive right to select the candidate fulfilling the position criteria. The Company believes in equal employment opportunity. Therefore, there will be no discrimination in any aspect during the hiring process." KPCL indicated that 24 percent of its employees come from local communities, 11 percent from the Punjab local community, and 13 percent from the AJK local community. In response to the Complainants' allegations of unfair dismissal and forced resignation from their jobs, KPCL noted that all blue-collar workers and construction site manpower was hired by the Engineering, Purchase, Construction (EPC) contractor and their subcontractors and not by KPCL.

Regarding KPCL's recruitment process, KPCL's Human Resources representative explained that once applications for technical positions are received, the HR department starts short-listing suitable candidates based on their qualifications and the criteria listed in the job advertisement. The applications of the short-listed candidates are sent to the relevant technical head of the department, who then selects candidates to be interviewed or may interview all candidates shortlisted by the HR department. There may be one or two rounds of interviews depending on the requirements of the position. Also, a written test or other evaluation may take place as part of the hiring process. Each candidate receives a score based on their application, interview, and testing (if applicable), and the highest-scoring candidate is offered the position. KPCL indicated that local candidates are not awarded more points in the scoring process because of their community of origin.

During CAO assessment team phone conversations with the Company, KPCL highlighted that recruitment for skilled workers is made purely on the basis of merit and takes into consideration

the required standardized criteria as per the job description. KPCL noted that all job descriptions follow requirements for the best industrial practices and standards. On the question of hiring people from local communities, the Company noted that, for unskilled openings, the Company will ensure that all unskilled workers are hired from the local communities. For technical positions, candidates are hired strictly on the basis of merit. The Company noted that if two candidates are equally ranked, the candidate who belongs to the local community will be given preference. KPCL stressed the importance of hiring technically qualified individuals so that safety issues at the project site are not compromised.

With respect to the current complaint, the Company noted that one of the Complainants was interviewed for a job vacancy in February 2022. While the Complainant had a competitive application, he was eventually not selected. KPCL noted that a recently announced position was posted in May 2023, in which the Company received more than eight hundred applications for eleven positions. The Company confirmed that one of the Complainants is among the profiles currently being interviewed for one of the eleven positions.

Additionally, KPCL indicated that they are unaware of the “Karot Dam Action Committee” in the area. However, they noted that one of the Complainants currently serves as a focal point of the Community Relations Management Committee (CRMC) convened by KPCL. Twenty community members (one community member representative for each affected village), along with representatives of the government district administration and KPCL, are members of this committee, which meets monthly. The purpose of the committee is to resolve community grievances, including issues around local employment. KPCL noted that a proper record of community grievances is maintained and shared with the communities and local government authorities in an open forum. The Company added that complaint boxes have been installed at different locations in the local communities and local government administration offices. They indicated that if someone is not able to approach the focal point or CLO, the person can submit their complaints through the complaint boxes available. The boxes are regularly monitored by the CLOs. KPCL stated that since January 2023, 25 grievances have been registered through its grievance mechanism, 17 of which have been resolved. Two out of the 25 grievances received are related to the issue of hiring local community members. KPCL indicated in June 2023 that these grievances are currently being addressed by its administration.

KPCL further added that a comprehensive worker’s training calendar on labor laws and workers’ rights is designed to educate their employees on their labor-related rights. Workers’ handbooks and leaflets are distributed throughout the Company and posted on notice boards. Additionally, the Company indicated that the Workers’ Council Management Committee (WCMC) receives and addresses employees’ grievances. WCMC meetings are held monthly. Finally, KPCL noted that the government’s Labor Inspector has visited the project site to verify adherence with national labor laws. According to the KPCL, the Labor Inspector has not found any breach of law on worker’s rights.

In June 2023, the Company confirmed its interest in engaging in a CAO-facilitated dispute resolution process to resolve the issues raised in the complaint.

ASSESSMENT CONCLUSION AND NEXT STEPS

During CAO’s assessment, the Complainants and KPCL’s representatives expressed an interest in engaging in a CAO Dispute Resolution process to address the 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,⁵ 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.⁶

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

⁵ 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>.

⁶ Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President, and Board of the World Bank Group, and the public, that CAO Dispute Resolution has concluded the dispute resolution process and transferred the complaint to CAO Compliance for appraisal.

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**

