

Introduction

Investment projects play a vital role in fostering sustainable economic development in emerging economies. By improving transportation, energy, water, and communication systems, these projects enhance productivity and connectivity. However, such large-scale developments require substantial labor forces, making proper workforce management essential. Unfortunately, labor practices in many developing nations may be compromised by weak regulatory enforcement and insufficient oversight. These shortcomings lead to poor working conditions that cause project delays, cost overruns, and legal complications, ultimately damaging the reputation of all stakeholders involved.

For project developers and contractors, failure to maintain proper labor standards may result in facing financial penalties, legal actions, work stoppages, and exclusion from future projects. Poor labor conditions lead to workforce shortages and reduced productivity, threatening project success. Potential consequences include reputational harm, financial losses, project setbacks, and noncompliance with regulations. Growing global attention on human rights and responsible investing further amplifies these risks.

To address such challenges, International Financial Institutions (IFIs) undertake due diligence aimed at implementing strict labor standards. These standards are guided by established frameworks such as the IFC Performance Standards, ILO Core Conventions, international safeguards and/or country system compliance. These measures help maintain investor confidence, ensure smooth project execution, and uphold the institutions' credibility as responsible financiers.

Ultimately, both IFIs and developers share a common interest in maintaining high labor standards. Doing so not only mitigates risks but also ensures project efficiency, maintains stakeholder trust, and aligns with internationally recognized human rights principles. This collaborative approach creates a foundation for successful



infrastructure development that benefits economies while protecting workers' rights.

Proper labor management practices also ensure compliance with both national regulations and international best practices, thereby keeping projects on track, mitigating risks of workplace injuries or work disruption by strikes, enhance reputation, and maintain a happy workforce.

Types of Employment Relationships

While certain risks apply universally across the entire workforce, it is important to categorize the project workforce based on the nature of their employment relationship with the project. These often determine the types and extent of risks that each group may face. They also shape the nature of mitigation measures and influence how effectively they must be implemented. The following classification broadly outlines the major workforce categories:

Direct Hires

Direct hires are workers employed by the project developer or owner. They are typically on the project's payroll, receive benefits, and are directly managed, ensuring better compliance with labor standards and safeguards.

Contractors' Labor

Contractors' labor are workers employed by the EPC/main contractor or their sub-contractors and hired for specific tasks. While not on the developer's payroll, they work on-site and are subject to labor laws, though oversight may vary compared to direct hires.

Supply Chain Labor

Supply chain labor work for vendors or suppliers providing materials or services along the supply chain of the project and thus are indirectly linked to the project. Being furthest from the project, they may lack contractual protection, while those in a different geography further lack regulators'/ developer's oversight and jurisdiction.

Cross-cutting Vulnerable Groups

In addition to the above categories, certain *vulnerable groups* of workers exist and cut across the above three categories. These include migrant workers, women, and marginalized groups who often face increased risks due to their social and economic vulnerabilities. These groups often lack the bargaining power to demand fair wages, safe working conditions, or protection from discrimination. Without a strong voice or access to legal remedies, they remain disproportionately exposed to exploitation and unfair practices, further exacerbating their marginalization.



Labor Management Risks

Labor risks in large-scale infrastructure projects present universal challenges but are particularly pronounced in emerging markets and developing countries (EMDCs), where labor conditions tend to be complex, multi-tiered, and dominated by informal and low-skilled workers. Investors and developers typically engage contractors, who often further subcontract work, creating fragmented supply chains. At the base of this structure, a transient workforce often endures poor management and substandard conditions due to several systemic issues. These include *limited contractor and developer capacity, weak contractual terms, inadequate oversight, a prevalence of informally trained low-skilled labor,*

and gaps in regulatory enforcement. This multi-tiered system frequently leads to ineffective labor practices and systemic vulnerabilities. Collectively, these structural weaknesses amplify labor management risks, which can be broadly categorized as follows:

1. Unfair Treatment & Discrimination
 - Wage disparities, delayed payments, uncompensated overtime
 - Unequal pay or stolen wages, lack of reporting mechanisms, and lack of protection from retaliation for raising concerns
 - Exploitation of migrant workers and women, who lack representation
2. Poor Labor & Contract Management
 - Misclassification to deny benefits, arbitrary contract changes
 - Absence of grievance mechanisms, breeding disputes
 - Interference with the establishment or operation of trade unions or collective bargaining
3. Safety & Living Conditions
 - Inadequate PPE, hazardous machinery, extreme weather/toxic exposure leading to injuries/fatalities
 - Overcrowded labor camps with poor sanitation and healthcare
 - Risk of STDs (Sexually Transmitted diseases) or endemic/pandemic
4. Weak Oversight & Accountability
 - Supply chain workers (especially migrant labor) face the worst conditions, often with minimal scrutiny due to cross-border complexities
5. Gender-based violence and harassment (GBVH) and discrimination
 - Direct instances of GBVH at workplace
 - Indirect instances where project personnel cause GBVH on the members of surrounding communities or take work related stress back, causing violence at home.
6. Lack of opportunities, communication, training and upskilling
 - Lack of opportunities for local communities owing to low skills, contractual preferences or poor stakeholder engagement resulting in resentment, strikes, sabotage and work disruption.

Forced Labor and Worst Forms of Child Labor

In addition to the above risks, *forced labor* and the *worst forms of child labor* represent the most critical and unacceptable risks. They are defined by the ILO Conventions 29 and 182 as, work exacted under menace of penalty or without voluntary consent, and work that deprives children of their childhood and dignity, respectively.

Forced labor includes practices like the confiscation of identity documents, irregular employment marked by inadequate pay, subpar working and living conditions, debt bondage and systematically denying access to project benefits, formal rights, grievance mechanisms or legal remedy.

For children, risks include engagement in hazardous and strenuous tasks, underpayment, heightened vulnerability to human trafficking and sexual exploitation besides denying them the very basic right to education.

These practices are often not limited to the project itself but also extend to exploitation within remote supply chains. These practices constitute a direct breach of the ILO's Core Conventions, resulting in severe human rights violations. This exposes the project to significant legal, reputational, and financial risks, including the potential loss of financing in addition to significant ethical concerns.

Mitigation Measures

While risks and mitigation strategies for vulnerable groups are integrated throughout the document, the primary labor categories and their specific measures are detailed below. A key requirement is the project developer's adoption of a project-wide, non-discriminatory Human Resources (HR) Policy, which comprehensively addresses the labor issues outlined in this note.

Direct Hires

Direct hires are typically under the direct scrutiny of the financier or the developer's management and are governed by well-established corporate policies, providing a strong foundation for risk mitigation. The required measures for ensuring effective risk management are detailed below:

- Occupational Health and Safety (OHS): Direct hires generally benefit from well-defined OHS policies, including safety training, protective equipment, and emergency protocols. Mitigation focuses on preventing complacency

through regular safety audits, mandatory training, and strict enforcement of international standards like IFC EHS Guidelines and ISO 45001 to address risks like workplace accidents and fatigue.

- Employment Conditions: These workers generally have fair wages, benefits, and clear contracts. To mitigate risks of discrimination or unclear policies, measures include implementing clear human resource policies, ensuring transparent wage structures, regulating hours of work and overtime in compliance with national law, providing accessible grievance mechanisms, and conducting regular reviews of employment practices. In addition, employers must respect workers' rights to freedom of association and collective bargaining, engaging in good-faith negotiations with legally recognized unions or worker representatives where national law permits.
- Workers' Accommodation and Living Conditions: Typically, direct hires have access to higher-standard accommodation. Mitigation involves regular audits and strict enforcement of accommodation policies (e.g., IFC/EBRD guidelines) to maintain hygiene and address issues like poor maintenance.
- Other Issues: Direct hires usually have access to grievance mechanisms and rights to freedom of association. Mitigation measures include implementing gender-inclusive policies, establishing GBVH-specific grievance channels, and providing training to prevent harassment and discrimination.
- In the event of significant workforce reductions, the project needs to implement a retrenchment plan that includes fair and objective selection criteria, reasonable notice periods, consultation with workers and their representatives, and payment of all legally mandated severance benefits

Contractors' and Sub-contractors' Labor

Strong contractual enforcement and active monitoring by the project developer are crucial for this category, as oversight and practices can vary significantly. The required measures for ensuring effective risk management are detailed below:

- Occupational Health and Safety (OHS): Protections depend on the contractor's policies and developer oversight. Key mitigation

includes enforcing OHS requirements in contracts, conducting joint safety inspections and audits, and ensuring adherence to project EHS standards to address inconsistent safety training and poor-quality gear.

- **Employment Conditions:** Risks include unclear employment terms and inconsistent wage payments. Mitigation requires ensuring contractors provide clear contracts and fair wages, monitored through audits. Such should further be internally audited and reported by the employer, substantiated with external audit by the project itself. Furthermore, where national law permits, contractors must respect workers' rights to freedom of association and collective bargaining.
- **Workers' Accommodation and Living Conditions:** Contractual workers often face substandard, overcrowded housing. Mitigation involves including specific accommodation clauses in contractor agreements, conducting regular joint inspections, enforcing penalties for non-compliance, and aligning with international guidelines on workers' accommodation.
- **Other Issues:** Risks include limited grievance access and harmful labor practices. Mitigation measures include extending the project's grievance mechanisms and gender-inclusive policies to contractors, promoting freedom of association, and conducting regular audits to eliminate child or forced labor. The project should further require contractors to demonstrate their compliance with national law regarding the termination of employment, including the payment of all legally mandated end-of-contract and severance benefits.

Supply Chain Labor

The project must identify and address labor risks in its supply chain that are significant based on the specific context and the nature of the supplies. Mitigation should be focused and proportionate, prioritizing high-risk areas.

- **Risk Assessment & Due Diligence:** The project should conduct due diligence to identify sections of the supply chain with significant risks of forced labor, child labor, or safety hazards. This involves a risk-based assessment of suppliers.
- **Contractual Flow-Down for High-Risk Suppliers:** For suppliers identified as high-risk, the project

should extend relevant labor and safety requirements through contractual clauses. This may include prohibitions on forced and child labor and requirements for basic OHS measures.

- **Verification & Mitigation:** Where significant risks are identified, the project should seek to mitigate them. This may involve requiring corrective action from the supplier or, in cases of severe, unaddressed non-compliance, considering termination of the relationship. The extent of oversight is commensurate with the significance of the risk and the project's leverage.

Workers Grievance Mechanism

A proper worker grievance mechanism is essential for ensuring fair and safe working conditions. It must be accessible to all workers without fear of retaliation or coercion for raising concerns, with clear, simple language and prominently displayed information.



[Example of an effective grievance mechanism from International Organisation for Migration \(IOM\)](#)

The mechanism should provide timely remediation and extend to contractors, subcontractors, and supply chain workers, where not available. It may include provisions for addressing gender-based violence (GBV) and adopt gender-inclusive approaches to resolve such cases such as one prescribed by UN Women¹. The mechanism should also provide a feedback mechanism, where repeated grievances feed into management control to advise update of policies or measures against recurring issues.

Conclusion

IFIs must conduct rigorous due diligence for labor management risks to uphold their mandate of sustainable and responsible financing. Proper labor due diligence is critical not only to prevent forced labor, child labor, and exploitative practices but also to ensure project stability, safeguard reputations, and align with international standards.



As this note outlines, effective management of labor risks presents unique challenges for each level and type of the workforce. It thus requires a structured, tiered strategy that addresses the distinct risks faced by direct hires, contractors' labor, and the often-invisible supply chain workforce. A project-wide Human Resources Policy forms the foundation, but its principles must be cascaded down through robust contractual terms and active oversight of all entities involved.

Thorough due diligence is essential as the most severe violations are often deeply embedded in subcontracting chains and migrant labor channels. Without this targeted, multi-tiered scrutiny, violations can go undetected, leading to project delays, cancellation of financing, legal repercussions, and irreparable harm to vulnerable workers. Lenders must therefore ensure regular monitoring, including internal and external audits

targeting contractors and sub-contractors. This comprehensive approach is what ultimately aligns projects with international labor conventions, protects worker rights, and mitigates the legal, financial, and reputational risks that threaten project success.

References: Regulatory and Policy Framework

Implementation of labour laws and associated safeguards is a challenge, especially in big, multi-tiered or high-risk projects. To mitigate risks, compliance with country system is a must for every project in the geography in which it operates. In addition, the project may also choose to align with additional international requirements, and regional frameworks on a voluntary basis unless mandated by the project financier to ensure compliance with a particular or set of standards. The table below outlines key international standards and regional frameworks that can guide the project's approach complementing mandatory national requirements.

International Requirements and Conventions	
ILO Core Conventions	
C87	Freedom of Association: Protects workers' rights to form and join unions.
C98	Right to Organize and Collective Bargaining: Ensures workers can negotiate collectively
C29 C105	Forced Labor: Prohibits all forms of forced or compulsory labour
C138 C182	Child Labor: Sets minimum working age and eliminates the worst forms of child labour
C100 C111	Equal Remuneration and Non-Discrimination: Ensures equal pay and prohibits workplace discrimination
UN Guiding Principles on Business and Human Rights	
Emphasizes corporate responsibility to respect human rights, including labour rights, across operations and supply chains.	
Sustainable Development Goals (SDG 8)	
Decent Work and Economic Growth: Promotes inclusive employment, safe working conditions, and labour rights.	

Regional Frameworks
BRICS Social Security Cooperation Framework
Encourages collaboration among BRICS nations to strengthen social protection systems and labour rights.
International Standards and Good Practices
IFC Performance Standard 2 (PS2)
Focuses specifically on fair labour and working conditions, including non-discrimination, safe workplaces, and effective grievance mechanisms for workers.
Equator Principles
Requires project finance clients to adhere to IFC PS2 and international labour standards for responsible project financing.
Global Compact Principles
Encourages businesses to uphold labour rights, including freedom of association, collective bargaining, and the elimination of forced and child labour.
ISO 45001 (Occupational Health and Safety)
Framework for ensuring safe and healthy working environments.
ILO Good Practice Guide
Guidance for governments and businesses on effectively implementing International Labour Standards.
UN Guiding Principles Reporting Framework
Guidance for companies on reporting human rights performance.

Useful Tools and Resources
Labor Standards Performance Management
IFC : Handbook- Measure & improve your labor standards performance
Core Labor Standards
ILO and ADB: Core labor standards handbook
Environmental, Health, and Safety for Workers
IFC : Environmental, Health, and Safety
Gender-based Violence at Workplace
UN WOMEN and ILO: Handbook: Addressing violence and harassment against women in the world of work
United Nations High Commissioner for Refugees: Gender-Based Violence (GBV) Assessment Tools
Labor Accommodation Management
IFC and EBRD: Workers' accommodation: processes and standards
Managing Risks Associated with Modern Slavery/Forced Labor
ILO and IOE : Combating forced labor - A handbook for employers and business
CDC Group, IFC, EBRD and DFID: Managing risks associated with modern slavery: A good practice note for the private sector
SA8000® Standard explanations, background information, and interpretation support
Social Accountability International: Guidance Document for Social Accountability 8000 (Sa8000®:2014)

Reference(s):

¹ <https://www.unwomen.org/en/digital-library/publications/2019/03/handbook-addressing-violence-and-harassment-against-women-in-the-world-of-work>

The New Development Bank is a multilateral development bank established by Brazil, Russia, India, China and South Africa with the purpose of mobilising resources for infrastructure and sustainable development projects in emerging markets and developing countries.

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NDB Sustainability

