

**Evaluation of the Promotion of Environmental
and Social Standards in DEG's Indirect
Financing
Case Study Report – Bank Windhoek, Namibia**

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DEG

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Abbreviations

DEG	Deutsche Investitions und Entwicklungsgesellschaft mbH
DFI	Development Finance Institution
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESMS	Environmental and Social Management System
H&S	Health and Safety
FI	Financial Institution
KPI	Key Performance Indicator
PEF	Private Equity Fund
SME	Small and Medium-sized Enterprise
TA	Technical Assistance

Executive Summary

DEG, as a Development Finance Institution, promotes economic success and sustainable business practices via the financing of private sector clients. DEG's investments extend to countries and sectors with different levels of Environmental and Social (E&S) regulations and standards as well as different degrees of enforcement thereof. In response, DEG requires its clients to implement a series of formalised E&S standards adapted to the clients' activities and context.

To ensure the implementation of E&S standards in its investments with Financial Institutions (FIs) and Private Equity Funds (PEFs), DEG includes requirements for these clients to implement a formal Environmental and Social Management System (ESMS) in its contracts. The ESMS includes the use of a specific Exclusion List in the screening process, the appointment of an E&S Officer to a dedicated role, and the provision of an annual report on E&S performance. The planning and implementation of ESMS at banks, including the appointment of an E&S Officer with responsibilities for management of the ESMS, is central to the achievement of DEG's E&S standards.

DEG is carrying out an evaluation of its overall environmental and social (E&S) risk management for its investments through FIs and PEFs. The evaluation has included a Case Study on the implementation and impacts of DEG's E&S requirements associated with its loan to Bank Windhoek in Namibia, which was signed in September 2015. DEG is providing Technical Assistance (TA) for the design and implementation of an ESMS at Bank Windhoek. This Report provides a summary of the Case Study findings.

In summary, Bank Windhoek is fully committed and on track to implement an ESMS. However, the bank is still at the pilot phase and has yet to identify and appoint a new E&S Officer – a major obstacle to the ESMS development. Significant impacts at the client level have yet to be realised. DEG's support to the Bank has been strong, particularly through the TA programme which added impetus and showed where to start when developing the formal ESMS.

The key findings from this Case Study are:

- The senior management of Bank Windhoek is strongly committed to the management of E&S risks through implementation of its ESMS. The Case Study demonstrates that, when planning actions and requirements to influence the E&S risk management at clients, DEG should take into account that the commitment of senior management is a critical factor in the effectiveness of the ESMS.
- The ESMS has been developed and piloted at Bank Windhoek, but will still take additional time and resources to implement. The Case Study demonstrates that a pilot phase is an important part of implementation and that the pilot phase needs to be for long enough for the ESMS to be properly tested before full implementation.
- At this stage, a highly relevant point for the long-term ESMS implementation at Bank Windhoek is the appointment of an E&S Officer. Bank Windhoek has not been able to find an appropriate Namibian candidate with hands-on experience to replace the previous officer, who left in December 2015. Despite the creation of an efficient interim solution by Bank Windhoek through an E&S consultancy, there is a role for DEG to support the client in identifying an E&S Officer, for example through further TA support to build the capacity of a less experienced candidate, when appointed.
- The planned coverage of the ESMS by Bank Windhoek is considered to be too ambitious at this early stage. The bank is planning for the E&S screening tool to be used for individual clients; it would be better to focus initially on implementation for only the higher risk sectors and larger clients.
- Bank Windhoek has a portfolio with less than 20% of the total volume invested in higher-risk sectors, therefore the Category B rating for E&S risk by DEG is appropriate.
- The evaluation visit confirmed that there would be significant opportunities in E&S investments in Namibia, particularly in relation to the management of water resources and in solar power projects; which would add environmental value through the portfolio.

1. Context: DEG's E&S Evaluation

1.1 DEG E&S Requirements

Due to the specifics of its portfolio countries and sectors, DEG has to promote and control Environmental and Social (E&S) standards proactively. Therefore, DEG requires its clients to implement a series of formalised E&S standards which are applicable to all of its clients.

These include, among other requirements:

- Screening projects against an Exclusion List;
- Using risk categorisation criteria for clients in different sectors;
- Developing and applying E&S procedures across the investment cycle;
- Assigning responsibility for E&S management;
- Training credit officers in E&S procedures;
- Monitoring E&S performance;
- Requiring annual E&S reporting from clients.

In its contracts with clients, DEG includes clear requirements for clients to structure these components into a formalised Environmental and Social Management System (ESMS).

1.2 Benefits of an ESMS

Implementation of an ESMS reduces the client's as well as DEG's risk exposure and strengthens the business performance of its financial intermediaries through:

- Achieving compliance with national regulations and international standards;
- Reducing the number and scale of environmental accidents and social incidents;
- Managing the risks to the reputations of the banks and the businesses in which they invest;
- Enhancing the opportunities for banks to gain access to international finance;
- Improving the motivation of employees at the banks, and meeting expectations of stakeholders related to environmental and social performance;
- Setting a framework to identify viable opportunities for environmental and social investments, such as in water resources management, energy efficiency, etc.

1.3 Purpose of this Evaluation

The purpose of this assignment is to evaluate both the progress and success in relation to the implementation of DEG's E&S requirements within the indirect financing portfolio. The evaluation covers both Financial Institutions (FIs) and Private Equity Funds (PEFs) and includes those that have received Technical Assistance (TA)¹ and those that have not (termed the Control Group).

The steps of the evaluation study include the following:

- a portfolio-wide data and document analysis;
- a representative web-based survey of clients;
- telephone interviews (19 clients);
- Case Study visits (8) within Europe, Latin America, Africa and Asia.

¹ The Technical Assistance (TA) programme is adapted to the client's needs. In its most general form it involves 5 stages: Phase 1: Initial Assessment; Phase 2: Supporting the development of policies, procedures, tailor-made tools, checklists etc.; Phase 3: Review of policies and procedures, on-site training of key staff; Phase 4: Evaluation of the implementation of E&S policies and procedures; Phase 5: Provision of on-going off-site support and final evaluation.

The objectives of the evaluation are provided in Box 1.

Box 1 - Objectives of the evaluation

- Objective 1 - Evaluate the implementation and practical use of ESMS by DEG's clients.
- Objective 2 - Evaluate the effectiveness and impact of ESMS at (i) clients; (ii) sub-projects.
- Objective 3 - Evaluate (i) the functioning of DEG, and (ii) the value-added of DEG (in particular in the TA framework on ESMS).

1.4 Purpose of this Report

This short-form Report summarises the evaluation visit to the **Case Study FI: Bank Windhoek Namibia**.

The Case Studies have been selected in line with agreed criteria, so that they cover a mix of regions (Africa, Latin America, Asia and Europe), a balance of clients with E&S risk categories A (high risk) and B (medium risk), a mix of FIs and PEFs, and a focus on clients that work with SMEs.

Bank Windhoek was selected as a Case Study that had been assigned by DEG as a financial institution with E&S risk Category B (i.e. its sector portfolio overall is considered by DEG as medium-risk), operating in a country where E&S regulations and enforcement are more advanced than in many other countries in the region. Bank Windhoek has been receiving Technical Assistance (TA) from DEG on the design and implementation of its Environmental and Social Management System (ESMS).

A loan between DEG and Windhoek Bank was signed in September 2015 for 250m Namibian Dollars (equivalent to about 17m Euro). The loan facility is intended to target SMEs in Namibia, with the condition that at least 70% of the disbursements are utilised for SMEs. The loan is one of two investments by DEG in its current financial sector portfolio in Namibia.

Bank Windhoek signed up for the TA support for the ESMS, which takes a 5-phase approach, and this support started in July 2015. The first three phases of the TA focus on the assessment of existing systems (Phase 1), ESMS development (Phase 2) and training (Phase 3). Support is also given in the pilot stage of ESMS implementation in Phase 4, with further support during ESMS roll-out in Phase 5.

This Case Study included a review of relevant documents (listed in Appendix 1), meetings or phone calls with DEG staff and the TA consultant, and meetings at Bank Windhoek offices in Namibia. These meetings involved the senior management at Bank Windhoek that are the main contacts with DEG and are leading the implementation of the ESMS, and with several investment managers and branch managers to get feedback on the ESMS concepts. In addition, visits were carried out to two clients of Bank Windhoek, to assess E&S risks, impacts and opportunities at the sub-project level. A list of telephone interviews, meetings and visits is provided in Appendix 2.

2. Background on Country and Client

2.1 The Country

Namibia is a large country in southwest Africa with a population of two million and a dry environment, with much of the country characterised by desert. The country gained independence from South Africa in 1990, but still has many business and commercial links to South Africa.

The economy is quite advanced compared to most countries in the region, and is dominated by mining, agriculture and tourism. Namibia is currently experiencing a severe drought after several years of low rains, and this is affecting several businesses. The ongoing problem with water in the country is one of the reasons that there is a relatively high level of environmental awareness.

There is quite strong enforcement of E&S regulations in Namibia, relative to most other countries in the region. This is particularly the case for labour regulations, although there is lower capacity for enforcement of environmental regulations.

2.2 The Client: Bank Windhoek

Bank Windhoek is the second largest of the four main banks operating in Namibia. The Bank has about 1,400 employees, spread over 50 branches in Namibia, and is starting to expand operations into Zambia and Botswana. It is the only one of the four main banks that is 100% Namibian-owned, and a large part of its portfolio is with SMEs. Bank Windhoek's portfolio includes investments in some mining companies, manufacturing (mainly food), agriculture, tourism, housing and services. The bank's current portfolio is therefore mainly in lower risk sectors in terms of E&S risks.

3. Results and Analysis

This section provides a summary of the key results and analysis from the Case Study. The results are presented against the specific objectives of the assignment, which are reflected in the sub-chapter titles.

3.1 Objective 1 - Evaluate the implementation and practical use of ESMS by DEG's clients

3.1.1 Compliance with DEG E&S Requirements

Table 1 provides an assessment of the progress in relation to implementation of DEG's E&S requirements by Bank Windhoek.

Since the Loan Agreement was signed, the client has designed an ESMS, with support from TA provided by DEG, and is in the pilot stage of implementation (as at July 2016), just starting to roll out the ESMS to some branches. The Bank is on track with implementation of the E&S requirements, with the exception that it has not yet provided an annual E&S report to DEG and it has not replaced the previous E&S Officer. Bank Windhoek is currently working with an E&S consultant (Enviro Dynamics) to attend to field investigations as and when required. The consultant has also been tasked with the development of reference material for credit managers in branches. The E&S requirements of DEG apply to the whole of the Bank Windhoek portfolio, not just the portfolio under the loan.

Table 1 - Assessment of the implementation of E&S requirements by Bank Windhoek

E&S requirements in the Loan Agreement	Compliance	Assessment of implementation
Implementation of an ESMS by 31 July 2016.	✓	The roll out of the ESMS started on 1 July 2016. Although the implementation is ahead of schedule, it will take many months (or years) to implement the ESMS across all applicable activities of the bank.
Delivery of E&S Report to DEG on an annual basis, with first report due by end April 2016.	✗ (✓)	The E&S Report has not yet been provided. Bank Windhoek is waiting for implementation of the ESMS. ²
Appointment of E&S Officer (co-ordinator) by 31 July 2015.	~/✓	The first E&S Officer was originally appointed as required, but left the bank. The responsibility had been redirected to the head of Governance & Reporting. It has not been possible to recruit an E&S Officer with the necessary experience.
Requirement to comply with a list of excluded activities, included as Schedule 8 of the Agreement.	✓	Bank Windhoek uses a bespoke Exclusion List that has been adapted to cover the activities in the DEG Exclusion List.
Adoption of the strategy to implement an ESMS by the Management Board (by 31 July 2015).	✓	The management of Bank Windhoek has included the implementation of the ESMS in their overall sustainability strategy

² By end of 2016, the E&S Report has been received. Bank Windhoek is now fully compliant.

Implementation of the Environmental and Social Action Plan (ESAP) for Bank Windhoek (included as Schedule 10 of the Agreement).	✓	Bank Windhoek has been implementing the ESAP. The only action that has not been properly implemented is the appointment of an E&S Officer.
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The components of the ESMS for Bank Windhoek include the following:

- An Exclusion List (which covers all activities on the DEG Exclusion List);
- Updated credit procedures that now include E&S risk management;
- A web-based tool for investment managers for the E&S assessment of clients;
- An ESMS User Manual that includes check-lists for due diligence and monitoring;
- An updated report format for presentation to the credit committee, so that this report now includes an E&S summary;
- Standard E&S conditions for inclusion in a loan agreement.

Bank Windhoek adapted its Exclusion List before first disbursement, as required, and the list was approved by DEG. The bank also has business with another DFI, and the Exclusion List and other components of the ESMS also comply with IFC requirements.

The Environmental and Social Action Plan (ESAP), attached to the Loan Agreement, has clear actions that focus on ESMS design and implementation, and the ESAP is being implemented in line with the timescales for the actions.

3.1.2 Management Commitment

The most important factor contributing to the good progress in implementation of the ESMS has been the strong management commitment to E&S risk management, identified during the evaluation visit and also confirmed by the TA consultant.

3.1.3 Implementation of ESMS

The pilot implementation phase has involved testing the procedures and tools of the ESMS on investment managers in selected branches.

Senior management have recognised that it will take further time and resources to implement the ESMS, and have extended the pilot phase for 3 more months to include application to investment activities from July 2016, E&S requirements have been included in contracts with clients.

Importantly, the bank recognises that more training is needed for investment managers to identify E&S risks. The Bank aims to train at least one investment manager in every branch on a train-the-trainer approach.

Based on the discussions with Bank Windhoek, including several investment managers and branch managers, there is still significant resistance from investment managers in relation to the ESMS. Some do not yet see the value, and perceive the ESMS as a bureaucratic exercise. The ESMS has been designed to quite a detailed level, and, during the assessment of the E&S risks of a client, the investment managers would go through a series of check-lists / questions / criteria about the activities of the client. This procedure would assign a risk categorisation for the client. The process would take investment managers to a stage where they could raise a "red flag" and then contact the E&S Officer for advice about the risks. In many cases, only a few questions in the tool would need to be answered (and therefore the assessment would take less than 5 minutes) and the procedure would then confirm the low risk at the client. This would be the likely outcome for the majority of clients of Bank Windhoek. There is currently, however, a lack of awareness of the investment managers that the E&S risk assessment process would be a quick task for the majority of clients, because most of the bank's portfolio is low risk. Additional communication and training for investment managers will address this issue. It is considered

that investment managers are likely to find the tool easier over time, and realise the benefits of the ESMS with some additional support.

An additional concern identified was in relation to the revised plan by Bank Windhoek for the application of the ESMS to all clients of the Bank (i.e. including individuals applying for loans or setting up business accounts). This is an example of where the client has been too ambitious, and it would be more practical to start with coverage of larger clients in the higher-risk sectors, and then expand the ESMS later, rather than start with coverage of all clients including individuals.

The ESMS has been designed to be flexible and to be applied to other countries; the long-term aim of Bank Windhoek is to roll out the ESMS into its operations in Zambia and Botswana. This would give the bank the potential to have a significant positive influence on E&S practices in those countries.

3.1.4 Resources for ESMS

A significant implementation restraint is the need for the appointment of an E&S Officer. Whilst senior management are fully committed to this, the Bank has not been able to identify a Namibian candidate with the necessary experience, despite going through two rounds of recruitment. There have been several candidates with strong academic qualifications, but without the hands-on experience needed.

The appointment of an E&S Officer is especially important at this time of roll out of the ESMS because many investment managers will need a point of enquiry on E&S issues, and there is also a need for the E&S Officer to play a lead role in the expansion of the training programmes.

An example of the support tasks needed from an E&S Officer came up during the evaluation discussions with investment managers. Bank Windhoek requires clients to provide relevant environmental and social licences and permits. Investment managers identified this as an area where they need support from an E&S Officer on the types of licences and permits that are needed (e.g. environmental permit, water abstraction, employment, fire safety, etc.). This example demonstrates that a trained and experienced E&S officer is needed, with knowledge of national E&S regulations.

Bank Windhoek appointed an E&S Officer at the time of the Loan Agreement, but this person only remained at the bank until December 2015, having worked alongside the TA consultant during the initial design of the ESMS. The function is now added to the role of Head of Governance, but this situation is not appropriate as it over-burdens that role and the person does not have sufficient experience in hands-on E&S risk management.

It has to be noted, that for the functioning of an ESMS the E&S Officer is highly relevant. Still, Bank Windhoek installed an efficient interim solution: Bank Windhoek is currently working with an E&S consultant (Enviro Dynamics) to attend to field investigations as and when required. The consultant has also been tasked with the development of reference material for credit managers in branches.

3.1.5 E&S Risk Categorisation

The risk categorisation tool of Bank Windhoek will identify high, medium and low risks, although investment managers indicated that more training is needed in the tool (in relation to appropriate characterisation). DEG included a list of high-risk sectors in Schedule 13 of Loan Agreement, which has been taken into account in the ESMS of Bank Windhoek.

3.1.6 E&S Monitoring and Reporting

Bank Windhoek carries out general monitoring visits to most clients on an annual basis, but the new ESMS will identify clients that are higher E&S risk and these will be visited more often. At present, Bank Windhoek does produce an external sustainability report, sometimes as a stand-alone document or as a section of its corporate annual reporting. This mainly covers internal E&S information and performance. The bank plans to monitor some Key Performance Indicators (KPIs) at its clients in future, although the specific KPIs have yet to be identified.

Bank Windhoek has not provided an annual E&S report to DEG, and the Loan Agreement implies that this was due in April 2016. DEG has not followed up, and there is uncertainty in the report schedule required because the client perceives that a report does not need to be submitted until the ESMS is operating. In addition, the client is required to notify DEG if the E&S Officer leaves their position and is replaced, according to the Loan Agreement. The client has not formally done this, but could be making the assumption that the TA consultant is aware of this and therefore DEG has been notified via the TA consultant.

Sub-projects are required by Bank Windhoek to report to the bank if there has been a serious accident or labour issue, but there is uncertainty about whether Bank Windhoek needs to report to DEG on this. The Loan Agreement implies that this is not needed, unlike for many of DEG's clients where such incidents need to be specifically reported.

The client is also working with IFC, but at this stage is unaware of the relative reporting requirements of DEG and IFC in terms of content and format.

3.2 Objective 2 - Evaluate the effectiveness and impact of ESMS at (i) clients; (ii) sub-projects

3.2.1 Effectiveness and Impact at the Client

Bank Windhoek has just started implementation of the ESMS. Although no major results or impacts would be expected at this early stage, the process of design and piloting the ESMS has raised the profile of E&S risk management at the bank.

The feedback during the evaluation was that the bank was previously aware of environmental risks, but the bank had paid little attention to social risks at its clients, such as labour risks. The DEG requirements have formalised the process of E&S risk management, and this is expected to have a significant effect on the management of risks in the client's portfolio. The client does understand the value of the ESMS and the likely enhanced reputation of the bank. However, as discussed in Section 3.1, the wide coverage of the ESMS requirements to include even individual clients of the bank is ambitious at this stage. There is a risk that this over-complicated start-up will make it difficult to achieve the buy-in of investment managers. Given that many of the investments in Bank Windhoek's portfolio are low risk, it would be better to start with a simpler process focusing only on the higher-risk sectors.

Namibia is a country where environmental awareness is high, partly because of its relatively advanced development and partly because of the severe shortage in water resources. It is therefore surprising that Bank Windhoek does not have a structured or proactive approach to seeking investment opportunities in environmental improvements, the obvious areas being in water resource management and to an extent in solar power. The ESMS currently focuses on risk management rather than opportunities. There is a role for DEG to promote E&S investments in countries like Namibia and with clients as committed to E&S risk management as Bank Windhoek.

3.2.2 Effectiveness and Impact at Sub-Projects

Given that the roll out of the ESMS to cover sub-projects had only just started, impacts at that level would not yet be expected. Bank Windhoek is predicting some resistance from its clients to the E&S requirements, but the business strategy of Bank Windhoek is that it is a Namibian bank that focuses on long-term relationships with its clients, and therefore it believes that it will be successful in encouraging the clients to implement the E&S requirements over time.

The evaluation visit included visits to two clients of Bank Windhoek.

Boxes 3 and 4 provide a summary of the findings from these visits and meetings. Overall, the companies were observed to be operating to a reasonable standard of E&S management, and there were no indications that they were not complying with E&S regulations. However, Bank Windhoek is not yet influencing the E&S performance at the companies and there was some scope observed for

improvements to E&S management. The visits also confirmed opportunities for investments in environmental improvements, in particular in water resources management.

These companies would present useful example case studies of good practices in E&S management, as demonstrated in Boxes 3 and 4 below.

Box 3 - City Sands and Bricks, Windhoek

City Sands and Bricks is the largest of several Namibian companies that produce and sell construction materials (bricks, aggregates, sand, etc.). It has 250 employees, working at 3 sites near Windhoek (the quarrying and crushing site, the brick manufacturing site, and the head office/depot). It has received two loans from Bank Windhoek over the last 8 years totalling the equivalent of about 3m Euro, and much of the funds have been used for financing trucks. The company produces 0.5m bricks per day.

City Sands and Bricks is a good example of a company with some E&S risks that has reasonable E&S management, but there is scope for improvement, and the company could be influenced by lenders. Example risks include health and safety (H&S), dust (although there are no houses near to the main sites), and water resources management.

The enforcement of E&S regulation in Namibia is quite strong relative to most countries in Africa, and the company is reported to be in compliance with national E&S regulations.

Water availability is important for the business as water is used in brick production. However, the severe drought in Namibia is a major concern for the company. There are likely to be opportunities for environmental investments at the company in relation to water resources and efficiency of water use.



Box 4 - Namib Poultry, Windhoek

Namib Poultry was set up by Namib Mills Group in 2013 on a greenfield site about 30km north of Windhoek. It is an important client of Bank Windhoek, which provided a loan facility at start-up of about 250m Namibian Dollars (equivalent to EUR17m at the time of that loan). The site covers 4.700 hectares (ha) and facilities include rearing sheds, laying sheds, hatchery, broilers, abattoir and processing. The company employs 800 people and the abattoir throughput is currently 50,000 birds per day.

The performance of the company is heavily dependent on the import protection policy of the Government of Namibia, and also on water availability. The majority of water needs are at the abattoir (about 600m³/day), and a further 400m³/day is needed for the other operations at the site. The major environmental risks at the site relate to water use and wastewater effluent from the abattoir. In 2015, Namib Poultry was constructing a wastewater treatment plant, and had spent EUR266,000 when it became clear during the commissioning process that the plant would not perform to standard. It was designed, for example, with no fat traps and had well below the required capacity. This resulted in the potential risk that the company would be shut down by the regulatory authorities. The company took the decision for a major re-design and re-build of the plant, including a high standard of recycling of the effluent (to drinking water standards) for re-use in the abattoir process.



The effluent ponds from the abattoir.

The management decision to take the basic re-design of the plant (costing about 4m Namibian Dollars) a step further to add the reverse osmosis recycling facility (an additional 8m Namibian Dollars) was a major positive step in terms of financial and environmental performance. Water availability is a major problem at present in Namibia, given several recent years with very low rains, and the company was buying piped water from the water company (NamWater) at significant cost. The facility is in its final testing stage and will recycle 85% of the wastewater. Payback for the investment is forecast to be within 4 years.



Effluent water near the end of the treatment process.

Although Bank Windhoek did not influence the investment in the high standard of wastewater treatment plant, this is a good example of a major environmental investment that will have a positive impact on financial performance, regulatory compliance and viability of the company.

3.3 Objective 3 - Evaluate (i) the functioning of DEG, and (ii) the value-added of DEG (in particular in the TA framework on ESMS)

3.3.1 Functioning of DEG

The client had good feedback overall on the support from DEG, including the TA. At the time of the planning of the loan, the E&S requirements were explained properly and mainly understood, according to the client, and the TA was also clearly explained by DEG. An E&S specialist did not visit Bank Windhoek during due diligence, but this would not be expected for a medium risk (Category B) client.

The amended Exclusion List of the client was approved by DEG at an early stage.

Bank Windhoek already had a strategy to plan an ESMS, but had not set a timescale for this. DEG has added impetus and showed where to start when developing the formal ESMS.

Bank Windhoek has a portfolio with less than 20% of the total volume invested in higher-risk sectors, and therefore the Category B rating for E&S risk by DEG is appropriate. The need at DEG has been identified for more detailed checking of the information behind the risk categorisation of clients, through clarification on a client's definitions of sectors and the types of investment. For example, Bank Windhoek states that it has about 10% of its portfolio in the "construction" sector, but has clarified that this is mainly housing projects rather than large infrastructure projects.

There is uncertainty from the client in the requirements for reporting to DEG, as indicated in Section 3.1 above. DEG should clarify when the annual E&S report is needed from the client.

In addition, it is uncertain whether DEG has been aware of the important situation related to the difficulty for the client in recruiting an experienced E&S officer since the previous person left in December 2015. The need for an appointment of an E&S Officer presents an opportunity for DEG to provide more support to Bank Windhoek. This could range from using DEG's network to identify candidates through to further TA support to build the capacity of a less experienced candidate, if appointed.

3.3.2 Value-added of DEG

The TA provided by DEG for the support in design and implementation of the ESMS started July 2015 with the visit of the TA consultant (from FI Konsult of the Czech Republic) to assess the existing ESMS. The TA has been quickly implemented, with the ESMS being designed over the following few months and the consultant returning to Bank Windhoek for training of about 30-50 staff at the bank in November 2015. Since then, the bank has been testing aspects of the ESMS in the internal pilot phase. At the time of the evaluation visit, the consultant was about to submit the Phase 3 interim report for the TA.

The TA consultant was working alongside the previous E&S Officer during the design of the ESMS, and the E&S Officer at the bank was leading the development of several of the components. This is important because, if the consultant develops all the components, then there is likely to be less buy-in and ownership of the ESMS at the client and implementation would be less certain. Despite the E&S Officer not yet being replaced, there appears to have been a good handover to other personnel, who have a strong understanding of the ESMS.

The original E&S screening tool was developed by the consultant in Excel. This was found to be not compatible with branch IT systems at the bank, but the bank has managed to shift this to a web-based system that can be used in branches.

Overall there was very good feedback from the client on the work of the TA consultant, who has apparently been responsive to requests and enquiries from the client during the pilot phase. The situation at Windhoek Bank does demonstrate that the pilot phase and the ongoing support of the consultant during implementation is an important part of the TA.

The training in the TA did apparently cover the identification of E&S investment opportunities, and not just E&S risk management. This is important because the ESMS has a risk management focus at present, but there are likely to be many environmental investment opportunities in Namibia.

As has been the case from discussions with several other clients, Bank Windhoek did request more sector guidance and case studies of good E&S practices in relevant sectors.

There would be advantages of Namibian consultants carrying out the TA, because of the costs of a European consultant, and also the proximity of consultants in Namibia would provide the opportunities for more regular and hands-on contact with the client. However, according to the client there are not yet the local consultants available with the relevant experience in Namibia.

There is an association of banks in Namibia, which might provide an opportunity for DEG to promote E&S standards in the financial sector.

4. Conclusions and Lessons Learned

Based on the analysis that is summarised in Section 3, this section lists the conclusions and lessons learned for this case study.

Overall Conclusions

- In summary, Bank Windhoek has commenced the development and implementation of its ESMS which is still at the pilot phase however the Bank has yet to identify and appoint an E&S Officer. Bank Windhoek has been receiving Technical Assistance (TA) from DEG on the design and implementation of its Environmental and Social Management System (ESMS). The ESMS is partially complete. Senior management is strongly committed to the process. Significant impacts at the client level have yet to be realised. At the Sub-Project level, the emphasis is on compliance although long-term relationships with the Bank are likely to improve E&S awareness, particularly in relation to social aspects. DEG's support to the Bank has been strong, particularly through the TA programme. Additional support has been requested in relation to clarification of E&S reporting requirements (in particular schedule), E&S risk categorisation and application of ESMS to the portfolio.

Implementation and practical use of ESMS by DEG's clients

- **Senior Management commitment to E&S** - The senior management of Bank Windhoek is strongly committed to the management of E&S risks through implementation of the ESMS. When planning actions and requirements to influence the E&S risk management at clients, DEG should take into account that the commitment of senior management is a critical factor in the effectiveness of the ESMS.
- **Pilot phase to implementation** - The ESMS has been developed and piloted at Bank Windhoek, but will take further time and resources to implement. The situation at Bank Windhoek demonstrates that a pilot phase is an important part of implementation and that the pilot phase needs to be for long enough so that the ESMS is properly tested before the full implementation.
- **Step-by-step roll out of the ESMS** - The current planned coverage of the ESMS at Bank Windhoek is too ambitious at this early stage. The bank is planning for the E&S screening tool to be used even for individual clients, and it would be better to focus initially on implementation for only the higher risk sectors and larger clients.
- **Buy-in of investment managers** - There is resistance from some investment managers to such a wide coverage of clients under the ESMS at Bank Windhoek, even though the screening tool would take just a few minutes for a low risk client. This case study demonstrates the importance of clear guidance on the ESMS to investment managers, and the need for expanding the training programmes for the investment managers at Bank Windhoek. Changing the mind-sets of some investment managers will be a major challenge – this may be helped by simplification of the approach i.e. limitation to certain aspects of the portfolio rather than individual accounts.

- **Priority of an experienced E&S Officer** - At this stage, the most important point for the ESMS implementation at Bank Windhoek is the appointment of an E&S Officer. The previous officer left in December 2015 and the role has been added on a temporary basis to the Head of Governance, but this cannot be a longer-term solution because that role does not have the capacity for inclusion of all the E&S tasks needed. A full-time E&S Officer is particularly important at this time when investment managers will be looking for support and advice during initial implementation of the ESMS. Bank Windhoek has not been able to find an appropriate Namibian candidate with the hands-on experience. Still, it has to be noted, that Bank Windhoek installed an efficient interim solution: they are currently working with an E&S consultant (Enviro Dynamics) to attend to field investigations as and when required. The consultant has also been tasked with the development of reference material for credit managers in branches.

Effectiveness and impact of ESMS

- **Raising the profile of E&S risks at the client** - The development of the ESMS at Bank Windhoek has added much impetus to E&S risk management at the client and raised awareness of the benefits at the client. However, given that the implementation of the ESMS has only just started, there is no major impact at the client or sub-projects at this stage.
- **Environmental and social investment opportunities** - The evaluation visit confirmed that there would be significant opportunities in E&S investments in Namibia, particularly in investments in management of water resources and in solar power projects, which would add environmental value through the portfolio.

Functioning and value-added by DEG

- **Potential for DEG to support the appointment of an E&S Officer** - The lack of an E&S Officer at Bank Windhoek is a major constraint going forward, and there could be a role for DEG to support the client in identifying an E&S Officer, for example through using its network to identify candidates or from further TA support to build the capacity of a less experienced candidate, when appointed.
- **Communication from TA consultant to DEG** - This case study has shown that there might be a need for more formal mechanisms for communication from TA consultants in-between the required interim and final TA reports in cases where there are problems at a client with achievement of E&S requirements. There have been at least 11 months between the two TA reports for Bank Windhoek, and formal notification to DEG at an earlier stage on the problems with the appointment of an E&S officer would have been useful.
- **Clarification of E&S reporting requirements** - Bank Windhoek has not yet provided an annual E&S report to DEG because it has the perception that one is not required before the ESMS has been (fully) implemented. However, the Loan Agreement implies that annual reports are required from April 2016. DEG should therefore clarify reporting requirements with the client.
- **Minimum E&S reporting requirements** - For clients that will take time to plan and implement an ESMS, DEG might consider specifying minimum reporting requirements from an early stage after the Loan Agreement before the ESMS is implemented. This early reporting requirement might set out a simple list of points to be covered, such as use of the Exclusion List, appointment of a trained E&S Officer, and progress in design of the ESMS.
- **Reporting on E&S accidents and incidents** - DEG should ensure its reporting requirements in the case of accidents and E&S incidents in the client's portfolio are clear and consistent.
- **Case studies of good E&S practices** - Bank Windhoek identified the need for sector guidance and case studies of good E&S practices for the main types of higher risk sectors in which it invests. There is a role for DEG in providing such materials and/or including more on these requests in the scope of work for the TA.