
Evaluation of the Promotion of Environmental and Social Standards in DEG's Indirect Financing

Case Study Report – Metier Capital Growth Fund 2, Regional Africa

Prepared for
DEG

November 2016

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Abbreviations

BEE	Black Economic Empowerment.
CAMs	Complementary and alternative medicines.
CSR	Corporate Social Responsibility.
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.
FI	Financial Institution.
KPI	Key Performance Indicator.
MCGF2	Metier Capital Growth Fund 2
PEF	Private Equity Fund.
SME	Small to Medium-sized Enterprise.
TA	Technical Assistance.
ToR	Terms of Reference.
UNICEF	United Nations Children's Emergency Fund.
WHO	World Health Organisation

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 business Metier Capital Growth Fund 2 (MCGF2) ('Metier'), which is a regional fund covering Africa. DEG has worked with Metier since 2011, starting with the Lereko Metier Sustainable Capital (LMSC) fund (5062), which focuses on renewable energy projects, mainly in South Africa. DEG then invested in MCGF2 in 2015. The fund currently has investments in four companies – a smaller number of sub-projects as per other PEFs. DEG provided Technical Assistance (TA) for the development and implementation of the Environmental and Social Management System (ESMS) for the MCGF2. This TA built on the ESMS that had already been developed under TA by the same consultant for the LMSC Fund.

Overall, the ESMS at MCGF2 is appropriate for the level of E&S risk with strong commitment from the management team; the relationship with DEG is strongly positive, particularly in relation to the TA programme, however more support would be beneficial in relation to examples of good practice and the identification of green investments as experienced by other PEFs.

The main specific findings and lessons learned from this Case Study are:

- Senior management at Metier are highly committed to E&S risk management and the ESMS is integrated into activities of the fund management team.
- The current ESMS at Metier is appropriate to manage the risks in the portfolio of MCGF2. At present, the E&S risk Category B is appropriate for MCGF2, but DEG will need to track the potential risks if the fund invests in companies in other countries.
- MCGF2 has a particular interest in strengthening the companies in which it invests, including the E&S performance at the companies, so that their value increases by the time the fund exits.
- Metier has required each client in the MCGF2 portfolio to set up a Social and Ethics Committee. These committees meet at least quarterly and Metier provides the chairperson. This is a useful mechanism for Metier to monitor E&S risk management.
- The main area that could be improved at the MCGF2 relates to the Environmental and Social Action Plans (ESAPs) that Metier requires the companies to implement. The ESAPs are high-level, focusing on actions such as review of policies and setting up committees. These actions would benefit from being more detailed and specific, with timelines and more precise end-points.
- The client had particularly positive feedback on the hands-on approach by DEG overall, including in relation to the ESMS, and positive feedback on the TA.
- The client and the sub-projects that were consulted all requested case studies on good practices in E&S management, and there might be a role for DEG to facilitate this process. In addition, DEG might take more actions to influence funds to identify more opportunities for E&S investments, such as in energy efficiency.

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: PEF: Metier Capital Growth Fund 2 (MCGF2)**.

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.

MCGF2 is managed by Metier from its head office in Johannesburg. MCGF2 was selected as a Case Study as a regional fund covering Africa, which had been assigned by DEG with E&S risk Category B (i.e. its sector portfolio overall is considered by DEG as mainly medium-risk). In addition, MCGF2 has received Technical Assistance (TA) from DEG on the design and implementation of its Environmental and Social Management System (ESMS).

DEG has worked with Metier since 2011, starting with the Lereko Metier Sustainable Capital (LMSC) Fund (5062), which focuses on renewable energy projects, mainly in South Africa. More recently, in 2015, DEG invested in the Metier Capital Growth Fund 2 (MCGF2), which is the focus of this report.

DEG provided Technical Assistance (TA) for the ESMS of the MCGF2. This TA built on the ESMS that had already been developed under a DEG TA by the same consultant for the LMSC Fund.

The Case Study included a review of relevant documents (listed in *Appendix 1*), meetings and phone calls with DEG staff (e.g. investment managers, etc.) and a call with the TA consultant, and meetings at Metier head office in Johannesburg. Meetings were held with the fund managers at Metier that are the main contacts with DEG, the officer responsible for environmental and social (E&S) management, and with other relationship managers under MCGF2. In addition, one visit and one phone call were carried out to two clients of the Fund to assess E&S risks, impacts and opportunities at that level.

A list of telephone interviews, meetings and visits is provided in *Appendix 2* to the report.

2. Background on Country and Client

2.1 The Country

In relation to the context of the regulatory framework, overall the enforcement of regulations in South Africa is stronger than for most other countries in the region. In South Africa, the social and particularly labour regulations are high-profile and strongly enforced, but the capacity for enforcement of environmental regulations is less strong.

2.2 The Client: Metier and MCGF2

Metier has about 25 professional employees, of which about 10 employees work on the MCGF2, including investment managers and analysts. The MCGF2 currently has investments in four companies:

- Southey Holdings - an industrial company based in Durban, with a range of industrial activities including ship repair, contracting and manufacturing (Box 3);
- Astrim Holdings - a pharmaceutical manufacturing, packaging and distribution company in Johannesburg (Box 4);
- Retailability Proprietary Ltd - a clothing retail company in Durban;
- Life & Brand Co. Proprietary Ltd - a food services company in Cape Town.

Metier has an approach to start with investments in small and medium-sized enterprises (SMEs) and to build stronger and larger companies over time. In line with this approach, the future pipeline for MCGF2 currently involves follow-on investments with existing clients. DEG does also have some co-investments with Metier under the existing funds.

3. Results and Analysis

This section provides a summary of the results and analysis from the Case Study within the structure of the overall objectives of the evaluation.

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

Metier had already applied the DEG E&S requirements related to ESMS to the LMSC fund, which has an E&S risk **Category A**. The MCGF2 has quite different investments to the LMSC fund (i.e. existing industrial and commercial companies) compared to the renewable energy investments (including greenfield projects) of LMSC. Therefore, Metier did adapt its E&S procedures for the MCGF2 and additional training was provided under the TA.

The feedback from Metier is that there have not been any problems in shifting the focus of its ESMS for the MCGF2. However, the current investments are all in companies in South Africa, where the enforcement of E&S regulations is stronger than in other African countries, and if investments are made in companies elsewhere in Africa, then the compliance with DEG E&S requirements would be more challenging and likely require more monitoring.

3.1.2 Components of the Metier ESMS

The Metier ESMS includes procedures, exclusion list, due diligence check-lists for E&S risk identification, and a risk categorisation tool. Metier does include E&S requirements in conditions of contracts with companies in its portfolio, but it tries to keep these conditions short and easy to understand, otherwise the fund encounters push back from its companies on the E&S requirements. The ESMS includes the requirement for companies to report within 3 days on any environmental accidents or major social incidents/issues.

The requirements for companies do include an Environmental and Social Action Plan (ESAP). However, the ESAPs are quite high-level and not specific, mainly focusing on actions such as review of policies and setting up committees. There are no clear timelines in the ESAPs, although Metier indicated during the evaluation that the initial ESAPs tend to cover the first 100 days of the investments.

Overall, the strong E&S performance of the companies of Metier means that detailed ESAPs are unlikely to be needed for the four companies, but there is scope for making the ESAPs more precise, with clearer end-points to tasks and including timelines.

Metier also includes governance in its ESMS, although this is an aspect added on by Metier rather than a requirement or recommendation of DEG.

3.1.3 E&S Risk Categorisation

The overall E&S risks in the portfolio of MCGF2 are considered by DEG and Metier to correspond to Category B (i.e. medium risk), but it is recognised by DEG that the fund is a higher risk client than several other Category B clients and its E&S performance needs tracking and managing. For example, the industrial practices of Southey involve significant health and safety risks and some environmental risks, and Retailability has some supply chain risks.

Metier has realised that E&S risk categorisation can be quite uncertain, and even the investments that are perceived as lower risk can have poor E&S performance if management commitment to E&S is weak. Therefore, Metier has expanded the risk categorisation to comprise three ratings covering (i) social risks, (ii) environmental risks, and (iii) management commitment to E&S risk management. All investments are subject to E&S due diligence (DD) according to the risks identified. Higher risk projects are subjected to a more detailed DD with assistance from a qualified E&S DD provider

The feedback from Metier was that, although the categorisation is useful, overall it provides only a high-level indication of potential risks.

3.1.4 Resources for ESMS at Metier

Metier has appointed an E&S Officer, and the E&S activities are part of her role. This is an appropriate approach because E&S aspects have been integrated into the procedures and activities of all investment managers at Metier. Training in the ESMS has been provided under the TA, including in identifying E&S risks. The investment managers monitor E&S as a part of their wider monitoring activities, and the E&S Officer is unlikely to carry out visits to monitor E&S aspects unless this is specifically requested. In addition, Metier would call on E&S technical specialists for specific tasks and support if needed.

3.1.5 Management Commitment at Metier

Senior management at Metier are highly committed to the ESMS and recognise that E&S risk management is good business practice. The feedback from Metier confirmed the point that the overall strategy of PEFs is to strengthen the companies in which it invests, and E&S performance is an important part of this strategy.

3.1.6 E&S Monitoring by Metier

Metier has very regular communication with its investment companies as part of the strategy of strengthening the businesses. Typically, the investment managers speak to the companies almost on a weekly basis, and hold regular meetings, depending on the company location. The investment managers might sometimes follow-up on E&S actions during these interactions.

More specific to E&S monitoring, Metier has required each client to set up a **Social and Ethics Committee**. These committees meet at least quarterly and Metier provides the chairperson. This provides a useful mechanism for tracking and monitoring E&S risk management. Metier does also require E&S reporting from clients, including some specific key performance indicators (KPIs) such as energy consumption and water consumption. Overall, the level of E&S monitoring by Metier is probably appropriate, but the aspects that are being monitored might not be the most relevant or important

because the ESAPs are rather high-level and could be enhanced by specific actions and timelines. In addition, when the fund invests in more regional clients elsewhere in Africa, the detail of the actions in the ESAPs and the level of monitoring would need to be stepped up.

3.1.7 E&S Reporting by Metier/Reporting to other DFIs

There has been one annual E&S report provided so far by Metier for MCGF2, as required by DEG, and this is a high standard report. The report provides good background on the E&S risks in the current portfolio. The report would benefit from inclusion of more detail on the future pipeline of potential investments and the associated E&S risks, because this is a time when DEG might have more influence on E&S aspects in the pipeline.

DEG required Metier to provide specific E&S reports on risk categorisation for the first 3 investments, which have been provided. These included an E&S report on Southey, which is the investment company with the higher potential E&S risks.

Metier also has investments from other DFIs. The feedback from Metier is that there are reporting inconsistencies between DFIs. Metier tries to provide the same report to all DFIs, but with additional sections in the report where one DFI requires a specific topic to be included.

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

The key point with PEFs is that E&S risk management at sub-projects is an integral part of overall strengthening of the companies in which the funds are investing. The overall aim of the funds is to strengthen the companies and exit at an improved price. In addition to this approach, Metier is fully committed to E&S risk management. Despite this commitment, DEG interactions with Metier on LMSC and MCGF2 have still resulted in further improvements to the ESMS. For the first capital growth fund, in which DEG had not invested, other investors (including another DFI) had some E&S requirements. At that time Metier therefore did have E&S principles, exclusion lists, etc., but their ESMS was less formal with few documented procedures. DEG has helped Metier to formalise the procedures into a more structured ESMS during the setting up of the LMSC fund, and then enhanced the procedures, guidelines and training for the MCGF2, giving more confidence in the E&S risk management. The strength of the Metier ESMS is that it is fully integrated into all activities under the funds, and the investment managers include E&S risk management into their activities. The area that could be improved relates to the ESAPs for the companies in which Metier has invested under MCGF2.

3.2.2 Effectiveness and Impact at Sub-Projects

Metier has invested in its portfolio of companies under MCGF2 for just over 6 months hence, at this stage, it is difficult to identify tangible E&S improvements. The four companies under MCGF2 either have low E&S risks and/or already have a strong ESMS in place. Metier promotes ESMS as good business practice, and it is not in its interest for the fund to deal with a company that resists E&S requirements given the overall strategic objective of strengthening the companies' value.

Examples of ESMS at sub-projects are included in Boxes 1 and 2. At Astrim, the product quality is critical in the pharmaceuticals sector, which is highly-regulated in South Africa and the company is frequently audited by its clients.

Metier has already had a wider impact on the main manufacturing and packaging part of the business by influencing and supporting the change of its main facility (Technikon Laboratories) from a family to a corporate business. The ESMS at Technikon Laboratories was reportedly already at a high standard, but Metier has required enhanced monitoring of KPIs such as energy consumption, and helped by providing access to technical specialists such as for energy efficiency improvements.

At Southey, E&S risks are potentially higher, but this industrial company did already have a high standard ESMS, demonstrated by its accreditation to international standards (ISO14001, OHSAS18001). Metier's

approach has been for a more coherent strategy and co-operation to be implemented across the Southey divisions, covering all business enhancement and training aspects, including ESMS and also with a focus on stakeholder engagement.

At Retailability, the main E&S risks relate to the supply chain, and Metier is tracking this aspect. The company has a Code of Practice for suppliers, but in practice the supplies that are imported are often through intermediaries, and therefore it is difficult to track the E&S performance in the supply chain. Metier is also encouraging use of more local suppliers from within South Africa.

Box 3 - Southey Holdings

Southey Holdings is a leading industrial company in South Africa covering industrial manufacturing, ship repair and contracting among other activities. Activities include industrial painting, blast cleaning, etc., and provision of support to major industrial sectors, including mining and oil and gas. Southey is based in Durban and has invested in a floating dry dock for ship repair.

E&S performance was already integrated into the activities of the Southey divisions before Metier invested in the company in early 2016. The Southey divisions already had environmental and social management systems. Detailed external audits are carried out of Southey operations, including by clients such as BP and Chevron. These have a major focus on health and safety, but also on other E&S risks such as waste management and chemical management. Southey is accredited to ISO 14001 and OHSAS 18001 management systems.

Despite the high standards of E&S risk management before Metier invested in Southey, the feedback from the sub-project was that Metier had helped influence a more strategic approach to E&S risk management, with improvements being made across the Southey divisions in terms of co-operation and communication on E&S management. This includes improvements in consistent stakeholder engagement, and is part of a wider project on training and enterprise development across the company. The ESAP required by Metier was not specific, and provides actions for Southey at a higher strategic level. For example, a representative of Metier is actively chairing each of Southey's Social and Ethics Committees, which are required by South African Law. This allows Metier to gain in-depth knowledge of and a direct influence on E&S practices in the investee company. Another example is that Metier prepared a consolidated database of all E&S initiatives across the Southey Group and has successfully engaged with some of its LPs to secure funding to support training initiatives within Southey.

Box 4 - Astrim Holdings

Astrim Holdings has operations in the pharmaceutical sector in South Africa. At present these operations mainly focus on Technikon Laboratories in Johannesburg. Astrim has a suite of laboratory, manufacturing, packaging and distribution capabilities, covering complementary and alternative medicines (CAMs) (e.g. vitamins) and other pharmaceuticals. The Metier Capital Growth Fund 2 (MCGF2) invested in equity in Astrim Holdings in early 2016.

Astrim operates in a highly-regulated sector with high industry standards, where product quality is critical, and the main site at Technikon Laboratories has frequent detailed audits by its clients that include E&S risk management practices. Astrim has a wide range of operating procedures and carries out extensive training programmes for employees, including related to the main E&S risks of health and safety and working conditions, energy use, management of chemicals and waste management. Many E&S aspects need careful management and monitoring, and the company had an ESMS in place before Metier invested. The ESAP required by Metier mainly includes initial higher-level actions, such as internal reviews of health and safety systems, establishing a Social and Environmental Committee, and review of policies, including related to the supply chain.

The management team of Astrim is committed to high standards of E&S performance, recognising that strong E&S management is good for business performance. The DEG client, Metier, has supported Astrim by raising the profile of E&S management as part of wider business strengthening, which is turning Technikon Laboratories from a family business to a more corporate business. Technikon Laboratories is now carrying out more specific and quantitative environmental monitoring, such as on its energy and water use. Metier has also added value by identifying technical specialists through its network for use by Astrim, including on energy efficiency. Although this has not covered other specialists in E&S risk management, this is a value that the fund could provide if it was needed.



Astrim does have one major contract with UNICEF/WHO to provide gel packs of vitamins and food supplements for use in developing countries for malnourished children. Although this is a business activity for Astrim, rather than CSR, it is a unique and high-profile part of its operations.

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 provided feedback that DEG was clear on the E&S requirements during the setup of both funds, and in both cases an E&S specialist from DEG visited during planning.

The ESMS for both funds has been designed with flexibility so that Metier could add the management of governance at the companies to the ESMS. However, it would not be expected that DEG should include governance in ESMS at other PEFs, because the fund managers themselves are best placed to influence the governance of their business investments. In addition, black economic empowerment (BEE) was

included as one of social KPIs in the monitoring systems under the ESMS. BEE is a very specific and high-profile issue for South Africa, and it is sensible that the ESMS is flexible to include this aspect.

The E&S risk categorisation of B for MCGF2 is appropriate, but the sector split in the fund and the actual E&S risk management activities at some sub-projects need tracking, particularly for Southey and for future investments if they are elsewhere in Africa (i.e. multi-country with multiple jurisdictions). The investment in Southey puts the current portfolio of the fund at the higher end of risk category B.

Despite providing feedback on the problems with inconsistent reporting requirements and lack of co-ordination of monitoring visits between DFIs, the client had good feedback on DEG in terms of its flexibility in requirements for the E&S report format.

The discussions during the evaluation, including with sub-projects, mainly focused on risk management and there was little mention of the potential for looking for more E&S investment opportunities. There could be potential for DEG to help the fund and sub-project companies to identify green investments (e.g. energy efficiency). However, the MCGF2 is at an early stage in its investments.

Overall there was very strong feedback from the client on the support provided by DEG, particularly from the investment manager but also from the DEG Sustainability Department. The client specifically mentioned the high levels of hands-on interaction and good communication. This demonstrates the high value of the local office in Johannesburg.

3.3.2 Value-Added of DEG

DEG adopted a sensible approach in the planning of E&S risk management for the MCGF2. Metier already had a functioning ESMS for the LMSC Fund, developed previously under TA from DEG. The LMSC fund had very different investments (mainly renewable energy projects, including on greenfield sites), but the principles of the ESMS were maintained, and DEG set up further TA to build on the existing ESMS. This TA involved shorter inputs, as would be expected, to develop different procedures for the types of investments under MCGF2, amending the due diligence check-lists and risk categorisation tool, identifying sector guidelines, and to carry out additional training. Out of the DFIs with which Metier has worked, only DEG has offered TA and training on ESMS.

There was good feedback from Metier on the work of the TA consultant. The consultant led the earlier TA for LMSC and there was continuity because she also led the TA related to MCGF2. She is based in southern Africa (Zimbabwe) and was responsive to Metier requests. At the time of the evaluation, the TA has largely been completed, and the final report from the consultant was due for submission.

The main suggestion from the client on the structure of TA was that it could be amended to give more support (e.g. on-the-job training) during the pilot and implementation stages of the ESMS. In addition, the client suggested that more case study examples on good E&S practices would be useful, a theme which has emerged through several of the visits.

4. Conclusions and Lessons Learned

Based on the analysis that is summarised in Section 3, this section highlights the conclusions and lessons learned for the Case Study.

Overall Conclusions

- The ESMS at MCGF2 is appropriate for the level of E&S risk with strong commitment from the management team; the relationship with DEG is strongly positive, particularly in relation to the TA programme, however more support would be beneficial in relation to specific examples of good practice and the identification of green investments.

Implementation and practical use of ESMS by DEG's clients

- **Strategy of PEFs to increase the overall performance of investment companies** - The senior management team at Metier is highly-committed to E&S risk management and the ESMS is integrated into the activities of fund management team (i.e. not delegated only to E&S Officer). The

capital growth fund (MCGF2) has a particular interest in strengthening the companies in which it invests, including the E&S performance at the companies, so that their value increases by the time that the fund exits. The current ESMS at Metier is appropriate to manage the risks in the portfolio of MCGF2.

- **Monitoring investment companies** - Metier has required each client in the MCGF2 portfolio to set up a Social and Ethics Committee. These committees meet at least quarterly and Metier provides the chairperson. This is a useful mechanism for Metier to monitor E&S risk management.
- **Specific action plans** - The main area that could be improved at the MCGF2 relates to the Environmental and Social Action Plans (ESAPs) that Metier requires the companies to implement. The ESAPs are quite high-level, mainly focusing on actions such as review of policies and setting up committees. These actions would benefit from being more detailed and specific, with timelines and more precise end-points. More detailed ESAPs would certainly be required when MCGF2 invests in companies elsewhere in Africa.

Effectiveness and impact of ESMS

- **Initial positive impacts in the client's portfolio** - Since the start of its relationship with DEG, the ESMS at Metier has now become more structured and formalised, providing greater confidence that E&S risks are being identified and managed. The sub-project companies in the current portfolio of MCGF2 already have strong E&S performance, but Metier has instigated some improved directions, even only within 6 months of the investment.

Functioning and value-added by DEG

- **Tailoring the TA scope and inputs** - The client had particularly positive feedback on the hands-on approach by DEG overall, including related to the ESMS. Technical Assistance (TA) on ESMS had already been provided by DEG under the previous LMSC fund, and it was appropriate that DEG amended the TA structure for the MCGF2 to simplify the inputs, focusing on additional procedures and training applicable for that different portfolio.
- **E&S risk categorisation** - At present, the E&S risk Category B is appropriate for MCGF2, but DEG will need to track the potential risks if the fund invests in companies in other countries.
- **Annual E&S report** - The client submitted an annual E&S report as required, and the report has good coverage of information on the current portfolio. However, it would be useful for DEG if the report has more information on the potential future portfolio, because it might be easier for DEG to influence E&S risk management activities at an early stage.
- **Co-ordination between DFIs** - The main suggestion from Metier was the request to streamline the reporting requirements of DFIs so that reporting is less time-consuming. In addition, the client suggested that better DFI co-ordination of visits to sub-projects would be beneficial for all parties.
- **Case studies on good E&S practices** - The client and the sub-projects that were consulted all requested case studies on good practices in E&S management, and there might be a role for DEG to facilitate this process, for example through the TA programme, and to initiate networks and exchanges on E&S risk management between funds.
- **E&S investments** - DEG might take more actions to influence funds to identify more opportunities for E&S investments, such as in energy efficiency.