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

Case Study Report – BIM Millennium Bank, Mozambique

Prepared for
DEG

January 2017

Citrus Partners LLP
180 Piccadilly
London W1Y 9HF
United Kingdom
www.citrus-partners.com

Due to continuous positive development at BIM Millennium Bank in 2016, DEG invited its client to provide a brief introductory status update to have a more balanced and up-to-date public document:

Status Update

ESMS Project since the case study visit in July 2016

On November 11 2016, the Executive Committee approved the implementation of ESMS (Environmental and Social Management System), and appointed a senior manager to be head of the specialized credit division, as the ESMS coordinator.

After the planning phase, on December 05 2016, an ESMS pilot was launched with the Corporate Maputo Branch. Each credit proposal submitted by the Branch must be accompanied by the ESMS assessment and respective level of due diligence. With this pilot, the Bank has been taking the first steps towards raising awareness in clients for a more positive social and environmental performance.

To date and due to the country's current economic and financial situation, the Bank has received few credit proposals and consequently made few ESMS assessments.

Next steps:

- Finalization and approval of the tailored ESMS documents
- Roll-out for all corporate clients
- Introduction of the ESMS clause in all credit agreements

Disclaimer

Citrus Partners LLP accepts no responsibility to any parties whatsoever, following the issue of the Document, for any matters arising outside the agreed scope of the work. This Document is issued in confidence to the Client and Citrus Partners LLP has no responsibility to any third parties to whom this Document may be circulated, in part or in full, and any such parties rely on the contents of the report solely at their own risk.

TABLE OF CONTENTS

STATUS UPDATE	2
ESMS PROJECT SINCE THE CASE STUDY VISIT IN JULY 2016	2
EXECUTIVE SUMMARY	5
1. CONTEXT: DEG’S E&S EVALUATION	7
1.1 DEG E&S REQUIREMENTS	7
1.2 BENEFITS OF AN ESMS	7
1.3 PURPOSE OF THIS EVALUATION	7
1.4 PURPOSE OF THIS REPORT.....	8
2. BACKGROUND ON COUNTRY AND CLIENT	8
2.1 THE COUNTRY	8
2.2 THE CLIENT: BANCO INTERNACIONAL DE MOÇAMBIQUE S.A. (BIM).....	9
3. RESULTS AND ANALYSIS	9
3.1 OBJECTIVE 1 - EVALUATE THE IMPLEMENTATION AND PRACTICAL USE OF ESMS BY DEG'S CLIENTS	9
3.1.1 <i>Compliance with DEG E&S Requirements</i>	9
3.1.2 <i>Management Commitment to ESMS</i>	10
3.1.3 <i>E&S Risk Categorisation by the Client</i>	11
3.1.4 <i>E&S Monitoring and Reporting by the Client</i>	11
3.1.5 <i>E&S Reporting by the Client to DEG</i>	11
3.2 OBJECTIVE 2 - EVALUATE THE EFFECTIVENESS AND IMPACT OF ESMS AT (I) CLIENTS; (II) SUB-PROJECTS.	11
3.2.1 <i>Effectiveness and Impact at the Client</i>	11
3.2.2 <i>Effectiveness and Impact at Sub-Projects</i>	11
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)	12
3.3.1 <i>Functioning of DEG</i>	12
3.3.2 <i>Value-added of DEG</i>	13
4. CONCLUSIONS AND LESSONS LEARNED	14

Abbreviations

BCP	Banco Comercial Português.
BIM	Banco Internacional de Moçambique S.A.
DEG	Deutsche Investitions und Entwicklungsgesellschaft mbH.
DFI	Development Finance Institution.
E&S	Environmental and Social.
EaSI	Environmental and Social Risk Indicator.
EIB	European Investment Bank.
ESAP	Environmental and Social Action Plan.
ESMS	Environmental and Social Management System.
ESRS	Environmental and Social Review Summary.
FI	Financial Institution.
FMO	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.
IFC	Internacional Finance Corporation.
PEF	Private Equity Fund.
SME	Small to Medium-sized Enterprise.
TA	Technical Assistance.
ToR	Terms of Reference.

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 Banco Internacional de Moçambique S.A. (BIM) in Mozambique, which was signed in November 2013. DEG is providing Technical Assistance (TA) for the design and implementation of an ESMS at BIM. This Report provides a summary of the Case Study findings.

It is important to evaluate the implementation of E&S risk management systems in line with the context in Mozambique, where environmental and social risks are generally not taken into account in banking sector activities.

The overall conclusions of the Case Study are as follows. BIM has so far not implemented an ESMS in line with DEG's E&S requirements, despite TA support. At the time of the case study, the Management Board still had to decide when and how the ESMS pilot would be started. BIM has experienced significant and high level personnel changes and will require guidance from DEG to recommence the ESMS design and implementation process. To date, the relationship related to ESMS implementation has remained largely with the TA Consultant rather than DEG. In order to get the process back on track and to strengthen its role as promoter of E&S standards, DEG needs to be more active in discussing progress with the client and in pushing for the implementation of the contractually-agreed ESMS and openly discuss and address possible constraints.

The Key Findings from this Case Study are:

- BIM's portfolio of investments is reported to be mainly in lower risk sectors. The Bank has been assigned an E&S risk Category B by DEG, which is considered appropriate for the current portfolio, based on the information provided by BIM. Examples of BIM investments in potentially higher risk sectors are mining, the funding of oil imports, construction, transport, utilities and agriculture.
- BIM has not implemented its ESMS as required by the conditions of the Loan Agreement with DEG, and is over 12 months behind schedule. While the implementation of the ESMS pilot is expected in the next months, there is potential for significant further delays.
- Since the Loan Agreement was signed with DEG, there was a major restructure of the BIM Board in late 2014, with over 80% of Board positions being changed. At the time of the case study visit, the client stated that it needed more time before starting to implement the ESMS due to the reshuffle of the Management Board in late 2014: E&S staff needed to get the new Management Board members on board by explaining the benefits of the ESMS. Management commitment will be essential to the successful implementation of the ESMS.
- BIM has not had an E&S Officer in the role for over 12 months. This is another important requirement of DEG, and the appointment and training will be an essential component of ESMS implementation. The perception from the evaluation is that the E&S role, if assigned, would just be

added by BIM to the responsibilities of an existing position, rather than being a stand-alone specific position. This approach is unlikely to be sufficient given the challenges with ESMS implementation.

- *The current situation (July 2016) is that BIM is planning to start an ESMS pilot in 2016, assuming the Board approves the ESMS policy.. Although it is important for DEG to find a balance between a strong relationship with the client and enforcing the conditions of contract, the situation would benefit from more regular communication from DEG with senior management at the client on E&S requirements. This communication should involve more regular dialogue with senior management at the client to keep raising the profile of E&S risks and the benefits of ESMS, through reminders of commitments, advice, and case studies of good practices. This strategic approach of soft communication and drip-feeding advice and support is more likely to strengthen management commitment over time.*

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: Banco Internacional de Moçambique S.A. (BIM), Mozambique.**

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.

BIM 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 are in an early development stage and where enforcement is generally considered weak.

BIM has received Technical Assistance (TA) from DEG on the design and implementation of its Environmental and Social Management System (ESMS), and SMEs are an important part of the BIM investment portfolio.

DEG and BIM started planning a loan facility in 2011. The loan agreement was signed in November 2013 for US\$ 23.7m from DEG (equivalent to about 21m Euro), and the first disbursement was made in August 2014. The loan was intended to support BIM's investments in SMEs, which make up about 20% of the bank's portfolio. At present, this is the only DEG project in the financial sector in Mozambique.

BIM signed up to the DEG Technical Assistance (TA) for the design and implementation of the ESMS in 2014, and the consultancy company, Steward Redqueen from the Netherlands, was selected under a framework contract with DEG to carry out the TA. The TA (5 phases) have not been completed due to a number of factors as described in more detail below.

The Case Study included a review of relevant documents (listed in *Appendix 1*), meetings or phone calls with relevant DEG staff (investment managers, etc.) and the TA consultant, and meetings at BIM head office in Maputo. These meetings involved the senior management at BIM that are the main contacts with DEG, personnel responsible for the bank's strategy, and an investment manager. In addition, visits were carried out to two clients of the bank, to assess E&S risks, impacts and opportunities at that level. A list of telephone interviews, meetings and visits is provided in *Appendix 2*.

2. Background on Country and Client

2.1 The Country

Mozambique is a relatively large country in southern Africa that gained independence from Portugal in 1975, with a current population of around 26 million. Despite recent development in the country, Mozambique still has high poverty levels and the economic situation in the country is uncertain, with reports that the government is at risk of default. There was a large devaluation of the currency in 2015. After independence, the country had a long civil war, which ended in the 1990s, but there has been recent unrest in central Mozambique. In addition to these challenges, the country currently has a serious drought in the south.

In Mozambique, environmental and social risk management is a lower policy priority than in many other southern African countries, and environmental awareness of the public is generally low. Some labour

regulations and a few environmental regulations have been adopted in the country, but enforcement capacity is considered weak. Overall, environmental and social risks are generally not taken into account in banking sector activities.

2.2 The Client: Banco Internacional de Moçambique S.A. (BIM)

Millennium BIM Bank was set up in 1995 under joint ownership between Banco Comercial Português (Millennium BCP) and the Government of Mozambique. BIM's financial performance is reportedly strong at present, despite the financial difficulties in Mozambique, and it is one of the two largest banks in a competitive sector, in which there are six main banks in the country.

BIM has about 2,500 employees across about 170 branches in Mozambique. Four of the branches deal with large corporate clients.

Overall, BIM's portfolio of investments is reported to be mainly in lower risk sectors. Examples of BIM investments in potentially higher risk sectors are mining, the funding of oil imports, construction, transport, utilities and agriculture.

Since the Loan Agreement was signed with DEG, there was a major restructure of the BIM Board in late 2014, with over 80% of Board positions being changed. This was mainly for reasons of the retirement age of Directors at that time, but also that the Board mandate runs in 3 year cycles, after which a few positions are usually changed.

BIM has recently started working with Development Finance Institutions (DFIs). The loan in 2013 was a joint facility between DEG and FMO, and EIB has more recently signed an agreement with BIM.

3. Results and Analysis

This section provides a summary of the results and analysis from the case study of BIM in Mozambique, 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

The main conditions of the Loan Facility Agreement between DEG and BIM on E&S requirements are listed in Table 1, which also provides an assessment of implementation of the requirements. The E&S requirements apply to the whole portfolio of BIM, and not just to the activities under the loan.

Initially, there was some progress made by BIM in relation to the E&S requirements, but there has been very little progress in the last 18 months. The bank did appoint an E&S Officer, but this person left the role in late 2014 and has not been replaced. The TA consultant carried out the first visit in September 2014, and an ESMS has since been designed, but it has not yet been implemented and there has been only a small amount of interaction between BIM and the TA consultant since early 2015; BIM has only completed Phase I of the ESMS TA stages and is still discussing next steps and management buy-in to the process.

The TA consultant did provide E&S policies and procedures, and an E&S risk screening tool, to BIM in early 2015.

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

E&S requirements in the Loan Agreement	Compliance	Assessment of implementation
Implementation of an ESMS within 18 months of signing of the Agreement (i.e. by May 2015).	✘	As of July 2016 the ESMS has not been implemented, partly because the client wanted to wait until new credit procedures were adopted and then integrate the ESMS.
Delivery of E&S Report to DEG on an annual basis, starting 18 months after the signing of the loan agreement. The format of the E&S Annual Report was included as Schedule 15 of the Agreement.	✘	BIM has not delivered Annual E&S Reports to DEG.
Appointment of E&S Officer (co-ordinator) within 1 month of signing the Agreement.	✘	An E&S Officer was appointed in 2014, but did not stay long in the role and has not been replaced.
Requirement to comply with a list of excluded activities, included as Schedule 8 of the Agreement.	✔	The client does use an exclusion list. It does have the tobacco sector in its portfolio, because this is a significant sector in Mozambique, but the sector reportedly makes up much less than 10% of the portfolio, and therefore this complies with the criteria of the DEG Exclusion List.
Hiring of independent expert / consultant (this was an optional condition).	~	BIM did sign up to the TA on ESMS under the DEG framework contract. The TA started in September 2014, but has not progressed over the last 18 months.
Adoption of the strategic direction to implement an ESMS by the Management Board (this was required prior to signing the Agreement).	~	The Board was committed to the ESMS before signing of the Agreement with DEG, but 80% of the Board was changed in late 2014, and the new Board have not since signed up to a definite starting point for the ESMS implementation.
Implementation of the Environmental and Social Action Plan (ESAP) for BIM (included as Schedule 13 of the Agreement).	~	The ESAP focuses on the design and implementation of the ESMS. Some progress was made in implementation of the Action Plan in the year after the Agreement was signed, but there has been very little progress in the 18 months since then.

The current situation at the time of the evaluation visit in July 2016 is that senior management team at BIM who are responsible for the relationship with DEG are planning to meet with the Management Board in the near future with the aim of seeking approval for full ESMS implementation. This would start with a pilot project within the main corporate investment team at the head office in Maputo. The pilot would involve using the ESMS screening tool and including minimum E&S requirements in contract conditions with the clients of the Maputo corporate office. The appointment of an E&S Officer is an important next step. A potential E&S Officer, with a different role at the bank has been identified, and the E&S function would be added to that role. However, the current approach of BIM is to appoint the E&S Officer and start the pilot ESMS only when the Board has approved the ESMS.

3.1.2 Management Commitment to ESMS

According to BIM, there has been a delay due to the Board restructuring in late 2014. Feedback from the meetings at BIM indicated that the current Board is concerned that imposing the E&S requirements on the bank's clients might result in some lost business because other banks in Mozambique do not have E&S requirements.

Even if the start of the ESMS pilot is agreed by the Board within the next months, it is likely that the bank will start with only the minimum requirements of compliance with E&S regulations in its conditions of contracts with its clients.

According to BIM, the parent company in Portugal imposes no policies or influence on E&S risk management at BIM.

3.1.3 E&S Risk Categorisation by the Client

DEG included a definition list of high-risk client sectors in the Loan Agreement. Sectors in the BIM portfolio were assessed by DEG at the due diligence stage and again by the TA consultant.

BIM provided feedback that the use of the DEG list of high-risk sectors is straightforward, although the client has not yet provided an annual E&S report to DEG (such a report would include information on the sectors in the portfolio). BIM uses the national sector classification scheme to report to other stakeholders on the sectors in its portfolio. An assessment of the E&S categorisation by DEG is provided in Section 3.3 below.

3.1.4 E&S Monitoring and Reporting by the Client

BIM does not carry out specific monitoring of E&S performance at clients. However, the relationship managers at BIM do regularly contact or visit clients, and would be aware of any major environmental accidents or social issues, because of the potential effect on the business performance at the clients.

The situation in Mozambique is that many companies do not yet have proper accounting systems, and therefore only the largest of BIM's clients are required to provide a financial report to BIM, every 6 or 12 months.

3.1.5 E&S Reporting by the Client to DEG

The perception of BIM at the evaluation meeting was that it was not required to submit an annual E&S report to DEG until June 2016. However, and according to the Loan Agreement the first report was required in June 2015.

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

Indications from the description by the client of the sectors in its portfolio is that many investments have a low E&S risk. However, the fact that E&S risks are not assessed by BIM and E&S requirements are not imposed on its clients mean that the E&S risks in the portfolio are uncertain. Although BIM is likely to become aware of major E&S accidents and impacts at clients, the large travel distances in Mozambique constrain the potential for monitoring visits by the BIM relationship managers.

In general, most relationship managers would not consider E&S risks in their interactions with clients. The DEG requirements have started to raise the profile of E&S risk management at BIM, but without the implementation of an ESMS, the impacts of DEG interventions on E&S risk management have been minimal.

3.2.2 Effectiveness and Impact at Sub-Projects

The ESMS has not been implemented at BIM and it is therefore unlikely that BIM has yet had any impact or influence at the companies in which it has been investing.

Box 2 provides a summary of points from the visit during the evaluation to one of the clients of BIM. This client has a high standard of E&S management, but their standards have not been influenced by BIM.

Box 2 - Horta Boa Agriculture, Mozambique

Horta Boa is part of a family-owned business with Portuguese origins, established in Mozambique in 2008. The farming part of the business involves livestock and crops, located in a rural area about 60km north-west of Maputo, with a farm land area of about 4,000 hectares. The development of the farm has benefited from BIM financial support since its start-up. Horta Boa has a positive social impact - it employs 150 full-time and 100 seasonal workers, many of which are from the local community. The company provides an excellent standard of accommodation for about 60 workers that stay at the farm. In terms of environmental and social risk management, its high standards are not likely to be representative of typical companies in Mozambique. This family business has a good relationship with BIM, but has not been influenced by BIM on E&S risk management.

Water availability is a major business constraint and there is currently a serious drought in this part of Mozambique. There would be opportunities for environmental investments related to water resources at this client.



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

There was a significant time period (over two years) for due diligence, planning and negotiation of the Loan Agreement between DEG and BIM. Although both DEG and BIM stated that there were challenges at that time in persuading the Management Board of the benefits of the E&S requirements, these challenges apparently were not the cause of the delay in the Agreement.

Loan conditions in relation to the ESMS at BIM have not been met. This is the type of client where E&S risk management is a new concept, and therefore the roll out of ESMS implementation would be best on a step-by-step basis. However, according to the contract with DEG, such roll out should at least have started over 12 months ago.

During the evaluation, the client stated that DEG had not followed up on the ESMS implementation, and had left the communication on ESMS with the TA consultant. The exception was apparently when DEG administration staff contacted the client to chase the submission of an annual E&S report, although the report that was due as far back as June 2015 has not been submitted, so this follow up by DEG is late.

Given the E&S risk categorisation by DEG of BIM as a Category B client, regular communication from DEG on E&S risk management would not be expected. However, the TA consultant has communicated to DEG several times about the lack of activity on ESMS at BIM. This has not led to any significant pressure being placed on the client by DEG. There was a conference call arranged by the TA consultant

that also included DEG and BIM in February 2016, to discuss progress on ESMS, but there has been no change in urgency at BIM since then.

The client stated that it is pleased that DEG has not pushed too hard and perceives that DEG has taken a flexible approach, given that ESMS is new to the financial sector in Mozambique. The client gave the example that it had decided not to close a deal with IFC because of the perception of a strict and inflexible approach of IFC to E&S and other conditions.

The loan facility was a joint project between DEG and FMO, with an agreement that DEG would be responsible for leading the aspects on E&S risk management. The client stated that there had been no problems in co-operation between DEG and FMO nor in the consistency of requirements. BIM has recently signed a project with EIB, which also has requirements for implementation of an ESMS.

Although the client did not have problems with understanding the DEG list of high risk sectors, the internal information at DEG on the client's portfolio is inconsistent and demonstrates significant uncertainty in the risk categorisation process at DEG. This uncertainty is illustrated by the differences in portfolio data as reported at due diligence (2011), at the time of the TA Phase 1 (inception) report (December 2014), and in the DEG EaSI report (2015) (see Appendix 3). It shows that the TA Phase 1 report, which would have been the most comprehensive information source on the sector portfolio, was not used for the subsequent DEG EaSI report (2015). It is understood that the DEG EaSI report provides the basis for ongoing E&S risk categorisation at a client. Although most of the portfolio of BIM is low risk, and the E&S categorisation of B is likely to be appropriate, the uncertainty in the information in the EaSI internal report does not provide the required confidence in the categorisation review process at DEG.

3.3.2 Value-added of DEG

The contract for the ESMS Technical Assistance (TA) was signed with Steward Redqueen in June 2014, and the first visit of the consultant to BIM was carried out in September 2014, following which the Phase 1 report of the TA was produced by the consultant in December 2014. Although the TA consultant has provided E&S policies, procedures and risk screening tools to BIM, the client has translated but not yet tailored and adopted these documents and tools.

The feedback from BIM on the work to date of the consultant is positive. It is difficult for the consultant to work remotely on documents and to strengthen commitment of the client without subsequent visits to work alongside the counterparts at BIM. There is an indication that the client might ask the consultant to return in September 2016 to carry out E&S training. This would be two years after the first visit.

The TA consultant did initially try to adopt the coaching approach that would have involved the preparation of most ESMS documents by the client. This approach was specified by DEG in the ToR for the TA assignment, and such an approach is appropriate to strengthen the understanding, ownership and buy-in of the client, and would be expected to lead to better implementation. However, given the lack of progress at the client, it is understandable that the TA consultant eventually decided to prepare the ESMS documents himself. It can be difficult for consultants to achieve a balance of ensuring progress in assigned tasks and waiting for development of documents (and therefore more ownership) by the client.

The ESMS screening tool is in Excel format and is quite detailed. Although the level of detail might be applicable at the time of full implementation of the ESMS, it would be more sensible to scale back the detail and start the pilot implementation with a simpler screening tool, that is applied only to specific higher risk sectors and/or larger clients of BIM defined by agreed criteria. For DEG's clients that are less committed, and/or for which the ESMS is a particularly new concept, the pilot implementation activities should be kept simple. *This recommendation is discussed in full in the Evaluation Report.*

4. Conclusions and Lessons Learned

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

Overall Conclusions

- BIM is planning to start the ESMS pilot in 2016. Currently, the bank has not implemented an ESMS in line with DEG E&S requirements, despite TA support. BIM has experienced significant and high level personnel changes and will require significant guidance from DEG to commence the ESMS design and implementation process. Whilst BIM is a Category B FI, it does invest in certain high risk sectors therefore a strong relationship with DEG's ESMS support team will be essential for risk control going forwards.
- As the ESMS (TA) has started once and stopped, it would be recommended to adopt a pilot 'light' approach to make a roll-out plan in the first instance.
- E&S reporting, due in June 2015, has not occurred and DEG need to chase this up.
- To date, the relationship with regard to ESMS has remained largely with the TA Consultant rather than DEG. There has also been inconsistency in the categorisation of E&S risk between the reported data from BIM and recorded data by DEG as per the EaSi.

Implementation and practical use of ESMS by DEG's clients

- Management Commitment to ESMS:
 - BIM has not implemented its ESMS as required in the conditions of the Loan Agreement with DEG, and is over 12 months behind schedule (only reaching Phase 1 and parts of Phase 2).
 - There has been a considerable delay due to the change in the Management Board. It has been necessary to explain the benefits of ESMS to the new Board Members. A decision on when to start the ESMS is expected in the next months.
 - At present, the client states that it is difficult for the current Management Board to justify the ESMS and, from a perception perspective, this may be a barrier to investment.
 - This Case Study evaluation demonstrates that management commitment is essential to the implementation of the ESMS. The provision of examples of good ESMS practices would help to demonstrate the benefits of E&S risk management to the senior managers at clients, and potentially strengthen their commitment to ESMS implementation.
- Priority need for appointment of an E&S Officer:
 - BIM has not had an E&S Officer in the role for over 12 months. This is another important requirement of DEG, and the appointment and training will be an essential component of ESMS implementation.
 - The perception from the evaluation is that the E&S role would just be added by BIM to the responsibilities of an existing position, rather than being a stand-alone specific position. This approach to the role of E&S Officer is unlikely to be sufficient given the challenges with ESMS implementation.

Effectiveness and impact of ESMS

- Minimal impacts at BIM:
 - The lack of implementation of the ESMS at BIM means that the impacts on E&S risk management for the client and at sub-projects have been minimal.
 - The only significant impact of the E&S requirements of DEG and the TA activities so far is that they have started to raise the profile of E&S risk management at the client.
- Opportunities for E&S investments:
 - The visits to sub-projects demonstrated that in some cases there will be opportunities for environmental investments, particularly in relation to water conservation/water use.

Functioning and value-added by DEG

- The need for a balanced approach:
 - It is important that DEG finds an appropriate balance between enforcing the E&S requirements and taking into account the wider challenges in the financial sector in a country like Mozambique, including the fact that ESMS is a new concept to the financial sector. DEG has been slow in following up on the E&S requirements in the conditions of contract. This is demonstrated by the limited follow-up when the E&S annual report was not received in 2015, and the inconsistencies in information on the client's investments in different sectors in DEG's internal EaSI report in 2015.
 - Although extensive monitoring by DEG of a Category B client would not be expected, the effectiveness of the E&S requirements would be enhanced by more engagement, particularly in countries such as Mozambique where ESMS is such a new concept.
- Communication by DEG to engage senior management at the client:
 - BIM is not planning to implement the ESMS or appoint an E&S Officer until the Management Board has committed to implement the ESMS. DEG has been aware of the delays, and there is potential for DEG to have more of a role in strengthening management commitment at the client to implement the ESMS.
 - Although it is important for DEG to find a balance between a strong relationship with the client and enforcing the conditions of contract, the situation would benefit from more regular communication from DEG with senior management at the client on E&S requirements. This communication should involve more regular dialogue and communication with senior management to keep raising the profile of E&S risks and the benefits of ESMS, through reminders of commitments, advice, and case studies of good practices. This strategic approach of soft communication and drip-feeding advice and support is more likely to strengthen management commitment over time.
- Formalising feedback from TA consultants:
 - Although the TA consultant did highlight the delay to DEG, the one conference call involving DEG to follow-up with the client did not result in any step up in momentum. DEG should consider a more formal system in the TA process where the consultants are required to raise a "red flag" with DEG if there are major delays in implementation and/or lack of commitment at a client, as is the case at BIM. DEG would then be in a better position to encourage the client at an earlier stage or to re-focus the ESMS support provided to the client.
- Minimum activities for monitoring:
 - Checking by DEG that the client is using the Exclusion List, and ensuring that the annual report is more strongly followed up (until at least a basic report is submitted) are the minimum actions that DEG should be taking for these types of client.
- Scope and ambition of DEG requirements:
 - In countries where E&S risk management is a new concept in the banking sector, DEG might consider more often initially including the E&S requirements under only the activities related to the loan (e.g. in this case on-lending to specific SMEs), rather than for the whole portfolio. Subsequent projects with the client could then widen the commitments to the whole portfolio in line with a realistic, step-by-step approach. A less ambitious approach, with stricter monitoring and controls, is likely to have a stronger impact.
- Improving the EaSI system:
 - The internal EaSI report (2015) at DEG has incorrect information on the BIM investments in different sectors because it did not take into account the earlier report from the TA consultant on the client portfolio. Although DEG prioritises the EaSI reporting process for Category A clients, it is important that DEG ensures that all applicable information is taken

into account in this process for Category B. The risk category of B is currently still appropriate for this client, although the portfolio split between sectors has been changing and needs tracking.

- Starting with simple ESMS tools:
 - There was good feedback from the client on the TA consultant, and it is considered unlikely that the client would have developed an ESMS without the TA support. Although the E&S procedures and screening tool developed by the consultant will be appropriate for the full implementation of the ESMS, it is recommended that such procedures and tools are simplified for pilot implementation, particularly for the types of client where ESMS is a new concept.
 - During the pilot, a simplified tool could be tested for only the higher risk sectors and the larger clients. For these situations, DEG might consider longer TA support during the implementation of ESMS, including the requirement for provision of more case study examples of good E&S practices.
- Structure for payment for TA costs:
 - The client was grateful for the fact that DEG provides the main contribution to the cost of the TA. DEG might explore an approach for the agreement with the client on the TA that involves incentives to implement the ESMS. For example, DEG should consider including a condition in the agreement that the client will pay the full cost of the TA if the ESMS is not implemented within a specified deadline