

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

Prepared for
DEG

November 2016

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Abbreviations

ADB	Asian Development Bank
DEG	Deutsche Investitions und Entwicklungsgesellschaft mbH
DFI	Development Finance Institution
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
ESAP	Environmental and Social Action Plan
ESMS	Environmental and Social Management System
H&S	Health and Safety
IFC	International Finance Corporation
IFI	International Finance Institution
IPO	Initial Public Offering
FI	Financial Institution
KPI	Key Performance Indicator
PEF	Private Equity Fund
SME	Small and Medium-sized Enterprise
TA	Technical Assistance
USD	United States Dollar

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 with **TBC Bank in Georgia**. This Report provides a summary of the Case Study findings.

Overall, the ESMS at TBC is at an advanced stage with strong management commitment. No areas of non-compliance were identified. The relationship with DEG is strongly positive but further value could be added through additional training and the further development of the green investment programme.

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

- **Senior management commitment** - The ESMS is being implemented to a high standard at TBC. One of the main factors in ensuring buy-in to the ESMS from loan officers at TBC Bank has been strong senior management commitment. The lesson for DEG is that a focus on increasing the commitment of management by explaining the benefits of ESMS, and ongoing dialogue with senior management of banks, will strengthen implementation.
- **Experienced E&S Officer** - At TBC Bank, the E&S Officer is proactive in supporting the loan officers, visiting clients for monitoring, providing support to clients and leading regular E&S training of loan officers, etc. Her activities are a contributory factor to the successful implementation of the ESMS. However, the dependency on a single E&S Officer is the main risk for the ESMS going forward and an E&S team would be preferred.
- **Adopting a co-operative approach with clients** - One of the main reasons for the growing commitment of TBC's clients to E&S risk management has been the co-operative approach adopted by TBC for addressing E&S issues at client operations. TBC helps clients to identify and address corrective actions; moreover, the E&S Officer provides regular support and advice to the client.
- **Opportunities for green investments** - Several examples have been identified during this case study visit of E&S improvements at sub-projects as a result of the influence of TBC Bank. During the evaluation meetings with TBC, there was discussion on what might be the next steps to build on the high standard of ESMS as the system does provide an excellent basis for a more proactive strategy to identify specific E&S investment opportunities.
- **Future DEG support to TBC** - There was excellent feedback from TBC on the relationship with DEG and the value added by DEG. Based on the evaluation, one focus of future support from DEG would be the further training of loan officers (and the E&S Officer) in the identification of E&S investment opportunities (e.g. energy efficiency, resource 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 FI: TBC Bank in Georgia**.

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.

TBC Bank in Georgia was selected as a Case Study because it has had a long relationship with DEG, and because TBC had been assigned by DEG as a financial institution with E&S risk Category A (i.e. its sector portfolio overall is considered by DEG as high risk). In addition, TBC Bank has received Technical Assistance (TA) from DEG on the design and implementation of its Environmental and Social Management System (ESMS)². This TA was in 2010-2012, before DEG introduced the approach of a TA framework contract on ESMS.

DEG first signed a loan with TBC Bank in 1998, and became an equity partner from 2000, increasing its equity provision at several stages after that. DEG sold the majority of its shares in the initial public offering (IPO) in 2014 and sold the remaining shares in 2015. DEG continues to carry out business with TBC Bank and currently has three outstanding loans with a total exposure of about 21m USD, with two subordinated loans and one of the remaining loans focusing on SME credit.

This Case Study included a review of relevant documents (listed in *Appendix 1*), phone calls with relevant DEG staff, and meetings at TBC Bank offices in Georgia. These meetings involved the senior management at TBC Bank that are the main contacts with DEG, the E&S Officer, and loan officers to get feedback on the ESMS concepts. In addition, visits were carried out to two clients of TBC Bank, 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

Georgia is a former Soviet republic that gained independence in 1991. The current population is about 4 million of which about 1.1 million live in the capital of Tbilisi. The Caucasus mountain ranges are on its northern border with Russia, and the country is also located on the Black Sea.

The economy has been strengthening since 2010, although there is still poverty and significant unemployment in rural areas. The country has a range of important sectors including agriculture, tourism, manufacturing and financial services.

Georgia has abundant water resources and the majority of electricity is generated by hydropower. In the industrial and manufacturing sectors, some improvements have been made in energy efficiency and resource efficiency since the legacy of Soviet times, although this is an environmental aspect where there remains significant scope for further improvements in Georgia.

² 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.

An Association Agreement was signed between Georgia and the European Union (EU) in June 2014. As a result, Georgia is implementing a programme to update its environmental and social legislation to align with EU Directives. Since the Association Agreement was signed, the Ministry of Environment and Protection of Natural Resources and the Ministry of Labour, Health and Social Affairs, and their associated agencies responsible for environmental and social standards, have been stepping up enforcement activities. However, capacity for enforcement still remains quite weak. Overall, the directions and activities related to the Association Agreement are one of the reasons for a growing profile and awareness on E&S issues in Georgia, and some companies have shown growing concerns about reputational risks related to E&S issues.

2.2 The Client: TBC Bank

TBC Bank was set up in 1992 and is currently the second largest bank in the country. It operates in Georgia and has one subsidiary in Azerbaijan and has more than 126 branches, and approximately 5,000 employees. The bank has about 600 loan officers, half of them deal with individual (retail) loans, the other half of loan officers deal with loans to corporate, SMEs and micro-finance clients. SME banking makes up about 13.5% of the portfolio of loans by volume, and the bank has a strategy to increase this part of its business.

TBC Bank's portfolio includes investments in several sectors that are considered to have high potential environmental and social risks. These include hydropower, infrastructure (e.g. highways) and other construction, downstream oil (fuel stations), mining, cement, secondary metals, other manufacturing and utility companies.

Following the problems in 2008-2009 between Russia and Georgia, several DFIs increased their equity in TBC Bank under a strategy to provide support in preparation for the initial public offering (IPO) flotation on the London Stock Exchange, which took place in 2014. As an equity partner, DEG has had a seat on the Board of TBC and the seat is given up by end of 2016.

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 as outlined in Box 1 above.

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 implementation of DEG's E&S requirements by TBC Bank (as specified in the Agreement for the loan signed in December 2011). The E&S requirements of DEG apply to the whole of the portfolio of TBC Bank, not just the investments under the loans.

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

E&S requirements in the Loan Agreement	Compliance	Assessment of implementation
Implementation of an ESMS and disclosure of E&S Policy.	✓	The ESMS was implemented from late 2012 and the core points of the E&S Policy have been published.
Appointment of an E&S Manager and an E&S Officer (for at least 50% time).	✓	The E&S Manager is the Deputy Director of the Risk Department, and the E&S Officer was appointed full-time in 2012.
Delivery of an E&S Report to DEG on an annual basis, by end of March each year.	✓	TBC Bank delivers annual E&S reports to DEG.
Prompt reporting to DEG on any event affecting environmental performance, health and safety and labour management.	~	TBC remains aware of this requirement but there have been no such incidents to date.
Report to DEG on any change in E&S Officer.	~	There has been no change in E&S Officer since the appointment was made in 2012.

The components of the ESMS at TBC Bank include the following:

- Environmental and Social Policy, approved by the CEO;
- Environmental and Social Procedures, including:
 - E&S screening check-list and questions, applied at initial review for potential clients of TBC Bank;
 - A DFI Exclusion List (which covers all activities on the DEG Exclusion List);
 - E&S risk categorisation criteria and tool (spreadsheet);
 - E&S due diligence reporting template and guidance;
 - Standard (template) set of conditions on E&S requirements for use in contracts with clients;
 - Standard Environmental and Social Action Plan (ESAP) template for use in loan conditions with medium and high risk clients;
 - E&S annual report template for reporting from TBC Bank to DFIs.

TBC Bank applies the DFI Exclusion List and has never requested a waiver related to the list. The Exclusion List is the only part of the ESMS that applies to all clients, including smaller value applications and individuals.

*There have been several cases where TBC has turned down business opportunities with clients that have activities on the **Exclusion List**. Beyond application of the Exclusion List, the E&S Procedures are then applied to corporate clients, SMEs, and micro-finance clients, for loans greater than 50,000 USD, but do not apply to individuals.*

3.1.2 Implementation of ESMS

The ESMS was developed in 2011 and 2012, with Technical Assistance (TA) support from DEG. The ESMS was piloted initially in a few selected high risk sectors in 2012 and wider implementation was rolled out from 2013.

The ESMS is now operating to a high standard and DFIs have not raised any E&S concerns at TBC Bank in recent years.

TBC Bank categorises clients into high, medium and low risk, and the approach for these categories is outlined below:

- **Low Risk** - one site visit is carried out by a loan officer or the E&S Officer to check the risks, and TBC loan conditions will include the requirements to comply with legislation and provide relevant permit documents;
- **Medium Risk** - the E&S Officer visits clients during due diligence and puts together an ESAP after the site visit. TBC requires implementation of the ESAP by the client, as a condition of the loan. In addition, monitoring visits by the E&S Officer are carried out twice per year;
- **High Risk** - the clients are required to contract an independent E&S consultant to carry out due diligence and prepare an ESAP, which is attached to the loan agreement as a condition. Monitoring visits are carried out by the E&S Officer twice per year.

TBC regularly calls on three Georgian E&S consultants and recommends these consultants to the high risk clients that are required to use independent consultants for due diligence. One of these three consultants is a specialist in hydropower, one in environmental aspects, and one in social aspects. In a few cases (e.g. for SMEs), the senior management of TBC agrees to cover the costs of the consultants.

The main challenges at the start of ESMS implementation were achieving the buy-in of the loan officers internally at TBC and persuading clients of the benefits of improved E&S practices. At that time, the overall awareness and profile of E&S risks was low in Georgia.

Approach to gain the buy-in of TBC loan officers

Loan officer performance is measured by several indicators; one key indicator is the overall volume of loans. Therefore the E&S Officer had to manage their concerns that clients might decide to take their business to other banks. In addition, the E&S Officer recognised that any E&S categorisation or other analysis tools used would have to be suitable for a non-technical audience.

The approach of the E&S Officer was to keep the tasks for the loan officers as simple as possible. In particular, the loan officers receive annual training so that they can be confident in their ability to identify risks and assign appropriate E&S risk categories. The E&S Officer then takes over in terms of planning the required E&S follow-up actions.

The risk categorisation tool used by the loan officers has been designed in a simple format, which has the advantage that the loan officers do not need to spend too much time on detailed E&S assessment. The tool provides an initial categorisation based mainly on the sector and sizes of the companies. The E&S Officer (or the consultants) then takes into account the past track-record on E&S performance of the client, and other more detailed factors, during the due diligence. The initial risk categorisation can be changed based on the more detailed assessment.

The fact that loan officers are not given detailed responsibility on E&S tasks, do not need specific E&S technical capabilities, and the point that the tools they use have been made simple, are all factors that have contributed to the buy-in of the loan officers into the ESMS. Although the risks and required improvements at clients are usually noted by the E&S Officer or the consultants at the due diligence stage, loan officers do sometimes identify E&S risks during their monitoring and often communicate with the E&S Officer to discuss E&S issues and actions.

Approach to gain the buy-in of clients

Many clients did initially push back on the E&S requirements, including the requirement for high risk clients to pay for consultants to carry out due diligence. In the early stages of ESMS implementation there were several clients that moved to other banks because of the E&S requirements of TBC Bank, but the TBC senior management has remained committed. Over time the clients have realised the benefits of improved E&S practices and the associated reputational advantages.

One of the major reasons that TBC has changed the attitudes of most clients is that, based on the pilot phase to implementation, TBC realised that a co-operative approach with clients would be essential. Through this approach, the E&S Officer conducts routine site visits and directly helps clients to identify E&S risk and to form and implement corrective actions.

One client has been dropped by TBC because of E&S issues after the loan agreement was signed. This was a construction company that caused environmental damage at a site of scientific and conservation interest during highway construction.

The E&S Officer pays more attention to SMEs than large corporate clients in general. This is because many larger clients already have strong E&S management, and some have direct loans with DFIs that have already influenced their practices.

3.1.3 Management commitment

The senior management team at TBC Bank has been fully committed to the ESMS from the start. For example, the CEO was personally engaged in development of the E&S procedures on a day-to-day basis. This commitment has been an important factor in getting the buy-in of loan officers to the process and the E&S procedures are now fully integrated into the routine activities of the loan officers.

3.1.4 Resources for ESMS

During the initial planning of the ESMS in 2011, the intention of TBC Bank was to add the role of E&S Officer internally to an existing role, for example to an appropriate loan officer. However, the senior managers realised that a dedicated E&S role was needed.

It was a major challenge to find a candidate with suitable experience, but the E&S Officer was recruited in 2012. She had gained the relevant academic qualifications and already had 6 years' experience with the Ministry of Environment and Protection of Natural Resources. The experience of the E&S Officer is an advantage to TBC Bank and has been critical to the successful implementation of the ESMS. However, this also presents a major risk in terms of staff retention given that there is no internal E&S team.

There is a high work load for the E&S Officer, particularly in terms of monitoring and support to clients, as demonstrated by the visits to sub-projects during the evaluation (the E&S Officer is responsible for all sub-projects). Many of the higher risk clients of TBC are located at significant distances from Tbilisi, taking up considerable travel time of the E&S Officer, who tends to monitor clients in clusters depending on location.

Given the increasing profile of E&S risk management in Georgia, the strategy of TBC to expand business with SMEs, the high work load of the current E&S Officer, and the risks to the ESMS because of dependency on the E&S Officer, TBC is currently recruiting an additional E&S employee or team.

3.1.5 E&S Monitoring and Reporting

TBC Bank tends to tailor the reporting requirements of its clients depending on the risks. TBC requires annual reporting from clients that have an ESAP, so that the implementation of the actions can be tracked. In addition, all clients are required to provide copies of relevant permits (e.g. environment and employment permits), and to notify TBC if there is a non-compliance with E&S regulations or significant accidents/incidents.

There have been no serious accidents/incidents reported apart from the environmental damage described above from the highway construction company, which resulted in the client being dropped by TBC Bank.

In terms of monitoring activities, the E&S Officer visits most high and medium risk clients twice per year. The loan officers also visit clients to carry out wider monitoring. Monitoring includes a check that the loan is being spent on the work specified in the contract, which is relevant because therefore the loan officers do also regularly visit operational sites (and can identify E&S risks), rather than just visiting head offices.

TBC Bank provides the annual E&S report to DEG and other DFIs. Some DFIs initially required different formats for annual E&S reporting by TBC, but the E&S Officer worked on a combined format that included all the reporting requirements from the different DFIs. The DFIs (including DEG) agreed to the amended 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

The implementation of the ESMS has had a very positive impact on the management of E&S risks at TBC Bank. Before the involvement of DEG and other DFIs, little attention was paid to E&S risks at the bank. It is now leading the way on E&S risk management in the financial sector in Georgia, for example the Bank of Georgia, which is the largest bank in the country, has only recently appointed an E&S Officer.

TBC has been approached by the Ministry of Environment and Protection of Natural Resources for advice on national legislation and comments on draft environmental laws, which demonstrates that the bank is recognised as a leader in E&S risk management.

The identification of specific E&S actions and the inclusion of an ESAP in the conditions for clients mean that TBC requirements go beyond national legislation. However, there is still a significant variation in performance at clients, in particular related to H&S, according to loan officers at the bank. The ongoing implementation of the ESMS still presents a significant challenge due to the range in EH&S performance at the sub-project level.

3.2.2 Effectiveness and impact at sub-projects

Many of TBC's clients have implemented the Environmental and Social Action Plans (ESAPs) required by TBC, and there are several examples of resulting improvements in E&S practices at clients, according to TBC. These include:

- Reduction in dust at several manufacturing sites, where TBC required the installation of extraction units and filters;
- Improved hazardous healthcare waste management at hospitals where TBC has required the waste to be burned in a licensed incinerator;
- Improved storage of chemical materials at a mining process plant, where TBC required a covered and secure storage area;
- Improved H&S awareness and practices at construction companies, including use of personal protective equipment, through implementation of specific actions required in ESAPs;
- Installation of a wastewater treatment plant at a fishery company, which included water recycling and ensured compliance with legislation.

According to TBC Bank, most clients now understand the benefits of E&S risk management and many clients now use their E&S performance as a positive aspect in their marketing.

Two high-risk category sub-projects were visited during the evaluation. These demonstrated that senior management commitment at the sub-projects is also important in the implementation of E&S improvements.

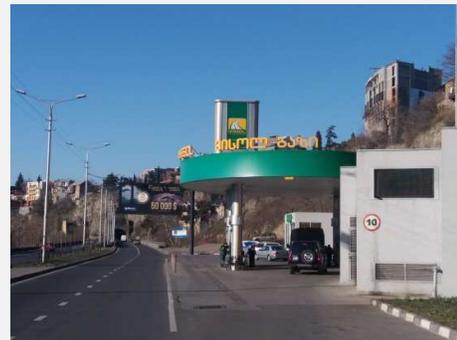
The findings from one of the sub-project visits, to a construction company, confirmed the point made by the E&S Officer that the clients require regular ongoing support. In this case, the company's finance department, that had dealt with TBC, had not made the operational team properly aware of the health and safety (H&S) requirements of TBC. At the construction site, practices were generally adequate in terms of H&S, although housekeeping and storage of materials could be improved. The visit demonstrated that implementation of requirements could be affected by simple shortfalls in communication inside the client company, and therefore that monitoring visits by TBC are important.

The second sub-project visit was to a large company that operates fuel stations, and the findings are described in Box 2. The E&S practices were observed to be of a high standard with the exception of a lack of road safety barriers next to the highway, which causes significant safety risks from potential high speed vehicle collisions. The company is willing to fund and install barriers, but is constrained by the need for agreement by the relevant authorities (which are not giving approval for the works). This

demonstrates an additional potential role for TBC to lobby government authorities on high risk issues, given the bank's already strong relationships with several government institutions.

Box 2 - Wissol Petroleum Georgia

Wissol is a Georgian company operating only in Georgia, with 141 fuel stations across the country, 3 oil depots, and operating 38 fuel tanker trucks. It has more than 2,000 staff. The company took a loan from TBC Bank in 2014, and TBC included an Environmental and Social Action Plan (ESAP) in the conditions of the loan. Its E&S practices have also been influenced via its direct loan with EBRD. The HSE Manager at Wissol was appointed in 2011 before the TBC loan was signed, and is very experienced in this downstream oil sector.



The company has high standards of E&S risk management. For example, it has double storage tank systems for underground storage with secondary containment bunds, and modern automated leak detection systems. The company generates small quantities of hazardous waste (e.g. waste oil, oil filters, etc.), which was a problem because there was not relevant hazardous waste treatment companies or facilities in Georgia; Based on this reason company installed Temporary Hazardous Waste Storage Areas at the fuel depots, in accordance with international standards and expects a treatment facility to be available in line with recent national strategy and legislation in the next few years. Company has a revised Waste Management Plan (WMP) in accordance with an updated Waste Code of Georgia. The WMP has been submitted and approved by the Ministry of Environment and Natural Resource Protection of Georgia. The company already had high standards before the loan from TBC, so the influence of TBC has mainly been to raise further the profile of E&S risk management.

There have been several minor incidents at various fuel stations, which are reported to TBC. The majority of these incidents have been traffic accidents at the fuel stations. The main current E&S risk for the company relates to road traffic accident close to, or at the fuel stations, because several stations are located next to high speed roads. The company used to install speed bumps and additional road traffic signs at the entrance of Fuel Station, to avoid traffic accident caused by over speeding.

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

TBC Bank provided excellent feedback on DEG, including on the communication from the DEG investment manager and DEG E&S specialists. For example, DEG has taken time to explain the E&S conditions in the loans, and to make sure that there is a good understanding at TBC of the practical implications of the conditions. In addition, DEG do provide feedback and sometimes ask for clarifications on annual E&S reports.

Given the portfolio of TBC Bank, including sectors such as hydropower, metals, downstream oil, etc., the risk categorisation rating by DEG of A (high risk) for TBC is appropriate.

DEG has not carried out a monitoring visit to TBC Bank to monitor E&S risk management since 2012. However, given the high standard of ESMS implemented at TBC, a monitoring visit is considered less urgent than for A Category clients in other countries.

However, DEG should maintain communication with TBC about the issue of E&S resources and the strong dependency on the on a single E&S Officer.

3.3.2 Value-added of DEG

Most people involved in the detailed development of the ESMS at the time of the TA in 2010 to 2012 have left the bank, but the recruitment of the E&S Officer overlapped with the end of the TA. The feedback from TBC on the TA was positive, and the TA included training of some of the loan officers in Georgia.

The ESMS was tailored by TBC, with advice from the TA consultant, rather than being provided "off-the-shelf" by the consultant. This approach enhanced the ownership of the ESMS by TBC.

TBC has also received E&S training in Georgia from ADB. Another E&S training from IFC was in the USA and involved only the E&S Officer (and the costs were paid by TBC).

In addition, TBC stated that its business with the DEG name adds value to its reputation, as does its business with other DFIs.

There were a few requests made by TBC for further support, including:

- More E&S training for loan officers in Georgia, particularly in relation to sector risk;
- Information to stay up to date with E&S topics, standards, international agreements, example good practices, etc.;
- Study tours for the E&S Officer to learn from good practices in other countries.

Based on the evaluation, one focus of future support from DEG would be training of loan officers (and the E&S Officer) in the identification of E&S investment opportunities (e.g. energy efficiency, resource efficiency). The expansion of business of TBC into "green" investments is a potential growth area for TBC, building on its strong ESMS, and contributing further to E&S improvements in Georgia.

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.

Implementation and practical use of ESMS by DEG's clients

- **Experienced E&S Officer** - One of the main lessons from TBC Bank is the need for an experienced E&S Officer. At TBC Bank, the E&S Officer is highly proactive in supporting the loan officers, visiting clients for monitoring and to provide support to the clients, leading regular E&S training of loan officers, etc. She has worked with TBC Bank as E&S Officer for 4 years, and had 6 years' experience with the Ministry of Environment and Protection of Natural Resources before that time. Her activities are an important factor contributing to the successful implementation of the ESMS.
- **Senior management commitment** - It has been a challenge and taken time for loan officers to take ownership of their E&S responsibilities in line with the E&S procedures in the ESMS. Specific activities taken by TBC include: annual training of loan officers, regular communication and support from the E&S Officer, joint visits to clients by loan officers and the E&S Officer. However, one of the main factors in ensuring buy-in from loan officers has been the management commitment, the top-down instructions and engagement by the senior management in the ESMS. The lesson for DEG is that a focus on increasing the commitment of senior management at banks by explaining the benefits of ESMS, and ongoing dialogue with the senior management, will strengthen implementation at the clients.
- **Adopting a co-operative approach with clients** - One of the main reasons for the growing commitment of TBC's clients to E&S risk management has been the co-operative approach adopted by TBC for addressing E&S issues at client operations. TBC gives clients time to correct problems, and the E&S Officer provides regular support and advice to the clients.
- **Level of E&S capability of loan officers** - TBC set out with the aim of raising the E&S capability of loan officers so that they are confident that they would be able to identify risks at the client sites, at which point their task is then to inform the E&S Officer about the potential risks observed. The responsibility for ensuring the clients address those risks is then with the E&S Officer. Through training and support, many of the loan officers at TBC Bank have reached this level of capability. They not only have the E&S procedures integrated into their day-to-day work, but they have the confidence to identify E&S risks. TBC realised that the loan officers do not necessarily need additional technical E&S capability. In addition, the E&S check-lists and risk categorisation tools used by the loan officers have been designed by TBC as simple to use. These approaches mean

that the time needed by loan officers on E&S risk management has been kept to a minimum, and this has greatly helped to obtain their buy-in into the ESMS. DEG should be recommending to clients that the ESMS components to be used by loan officers are more likely to be implemented if they are designed to be simple.

Effectiveness and impact of ESMS

- **Opportunities for green investments** - The ESMS at TBC is being implemented to a high standard. According to TBC Bank, most clients now understand the benefits of E&S risk management and many clients now use their E&S performance as a positive aspect in their marketing. Several examples have been identified during this case study of E&S improvements at clients as a result of the influence of TBC Bank.
- During the evaluation meetings with TBC, there was discussion on what might be the next steps to build on the high standard of ESMS, as the system does provide an excellent basis for a more proactive strategy to identify E&S investment opportunities. These types of investments might particularly relate to improving the energy efficiency and resource efficiency of manufacturing clients.
- **Staff retention of E&S Officer** - The dependency on one E&S Officer is the key risk for the ESMS going forward and a team is needed for continuity, to manage the work load, and so that TBC Bank can build on the high standard of ESMS to identify investment opportunities in E&S improvements.

Functioning and value-added by DEG

- **Future DEG support to TBC** - There was excellent feedback from TBC on the relationship with DEG and the value added by DEG. Based on the evaluation, one focus of future support from DEG would be training of loan officers (and the E&S Officer) in the identification of E&S investment opportunities.
- **Potential role for DEG on policy dialogue** - The visit to one of the sub-projects during the evaluation demonstrated a potential role for DEG, as a well-respected DFI in Georgia, to lobby government institutions on E&S policy. In this case the issue is constraints to installation of safety barriers at fuel stations. Such an approach for DEG to policy dialogue would be enhanced by co-operation with other DFIs.