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

Case Study Report –Techcombank Vietnam

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DEG

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Abbreviations

CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFI	Development Finance Institution
E&S	Environmental and Social
EIA	Environmental Impact Assessment
ESMS	Environmental and Social Management System
FI	Financial Institution
H&S	Health & Safety
IFC	International Finance Corporation
MONRE	Ministry of Environment and Natural Resources
NSEP	National Strategy for Environmental Protection
PEF	Private Equity Fund
SME	Small to Medium-sized Enterprise
TA	Technical Assistance

Executive Summary

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

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

DEG is carrying out an evaluation of its overall environmental and social (E&S) risk management for its investments through FIs and PEFs. The evaluation has included a Case Study on the implementation and impacts of DEG's E&S requirements associated with its loan to Techcombank, Vietnam. This Report provides a summary of the Case Study findings.

The overall conclusions of the Case Study are as follows. Techcombank has an ESMS in place based on IFC procedures. Whilst the system itself is in place, it is compliance-focussed. Due diligence is minimal and limited to a desk review of sub-project files against national E&S regulations. Site visits are currently not possible for the E&S team; E&S Officers were recruited from professional investment staff. Training received to date from IFC has also been process driven. In short, the management team are concerned about ESMS as a potential barrier to banking competitiveness and the current system arrangements are considered unlikely to control risks at the sub-project level.

The Key Findings from this Case Study are:

- An ESMS has been developed in line with IFC requirements and the system itself is compliant in terms of key elements;
- The E&S team, consisting of three assessment officers who have moved over from Credit Appraisal, focuses on reviewing necessary permits and overall compliance with national regulations; client visits are beyond the current scope of work of the ESMS team. The E&S team has some difficulties in defining and assessing the specific E&S risks associated with different industry sectors;
- For Techcombank, E&S assessment beyond checking necessary permits is considered potentially challenging in the local financial sector as clients do not yet see the necessity to adhere to stricter standards, which is not required by their competitors
- As site visits are not undertaken impact on the ground is limited;
- Techcombank report that DEG requirements are all clear – and are in line with IFC's procedures which they have been trained in through TA by IFC including annual refresher training
- Techcombank does not have a strong relationship DEG but does undertake annual reporting in accordance with the loan conditions. The final loan repayment was due during the course of the Evaluation Assignment therefore it is not clear to what extent DEG can exert future influence. Should the loan be extended, Techcombank would benefit from a TA programme and/or much a closer relationship with DEG. In particular, it would be useful to train the E&S Officers further in risk categorisation and risk assessment for the higher risk part of the banking portfolio (at a minimum).

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 clients 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 companies, 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 I: 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: Techcombank, Vietnam**.

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.

Techcombank was selected as a Case Study that had been assigned by DEG as a financial institution with E&S risk Category B (FI-B) with SME involvement (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.

Techcombank is part of the Control Group, i.e. it has not received TA from DEG, under the framework contract although assistance has been received by another DFI (IFC).

The Case Study included a review of relevant documents (listed in *Appendix 1*) and meetings at the Techcombank branch office in Hanoi. These meetings involved the relevant senior manager (Executive Vice President Financial Institutions), the relationship manager and E&S Officers. No visits were undertaken as part of the Case Study – as explained in the main body of the report, it is not possible for the E&S team of Techcombank to undertake site visits for environmental and social (E&S) compliance.

2. Background on Country and Client

2.1 The Country

Vietnam is situated in South East Asia with a population of approximately 94.3 million people. The capital city is Hanoi, in the North of the country. Hanoi and the country's largest city Ho-Chi-Minh City in the South form the commercial and political centres of a densely-populated developing country that is currently undergoing transition from a centrally-planned economy to a more modern and open structure. Through the transition period, the country's economy has doubled in size, whilst its poverty rate has halved.

Vietnam joined the World Trade Organisation (WTO) in January 2007. This has promoted more competitive, export-driven industries (exports have grown by 20% per year and foreign direct investment by 10% per year). Economic reform continues to take place through the restructuring of public investment, state-owned enterprises and the banking sector. However, the government's progress in meeting its goals is lagging behind the proposed schedule and Vietnam's economy continues to face challenges from an under-capitalised banking sector and a large number of non-performing loans.

2015 witnessed significant growth in the national economy with GDP rising to 6.68% (on a government target of 6.2%) and the inflation rate being the lowest in around 14 years 2.05% (source: World Bank).

The Vietnamese government is raising the profile of environmental sustainability and in 2003, the Ministry of Environment and Natural Resources (MONRE) was created and the National Strategy for Environmental Protection (NSEP) was adopted. In 2004, the Environmental Impact Assessment (EIA) requirements for project approvals were increased for potentially high risk sectors and the Strategy for Sustainable Development ('Agenda 21') was adopted (which is a framework plan to realise the targets of

national sustainable development in the 21st Century). However, Vietnam reportedly still struggles with the implementation and enforcement of these policies. Environmental and Social Governance (ESG) within the Vietnamese banking system is reported to be strengthening but as yet not fully developed. Banks with DFI interest or foreign shareholders reportedly do better. To date, most of the larger banks have a Corporate Social Responsibility (CSR) programme in place but this is relationship/reputation driven and tends to be philanthropic rather than for social investment.

The growing economy, coupled with increasing industrialisation and urbanisation, and the government's significant investments in infrastructure, are putting significant pressures on the environmental sustainability of Vietnam. The overall focus on mere economic growth and industrialisation is reflected by the banking sector's relatively slow take-up of environmental and social (E&S) policy and enforcement and by the prevalence of industrial pollution incidents – Techcombank is aware of this and of the high potential E&S risks involved in heavy industry investment.

2.2 The Client: Techcombank Vietnam

2.2.1 Background to the Client

Techcombank was established in Hanoi on 27th September 1993 under the transaction name of “*Vietnam Technological and Commercial Joint Stock Company*”. With an initial registered capital of VND 20 billion (Approximately US\$800,000 at the current exchange rate), the bank now stands above VND 3,200 billion (approximately US\$128m at the current exchange rate).

Over the last five years, Techcombank has grown deposits, revenue and operating profit faster than any other bank in Vietnam. At the end of 2008, Techcombank was the 7th largest Vietnamese bank by asset size, the 3rd largest Joint Stock Bank, and the 5th most profitable in absolute terms. Principal services are corporate loans, mortgages, auto loans and retail banking (with a large network of ATMs).

By the end of 2008, Techcombank had employed 4,041 full time employees across its nationwide network of 169 branches and transaction offices². By 2012, the number of branch office had increased to 316 with the Head Officer at Techcombank Tower, Hanoi. By 2014, the bank employed >7,000 personnel.

The Bank is regarded as a leader in Vietnam and was awarded ‘The Best Bank in Vietnam’ award in 2010 and 2016 as well as 25 international banking awards in 2012 and 2013. By 2013, the client base had reached >1.2 million which is indicative of the challenges posed by the sheer scale of the Bank's operations. Between 2014-2016, the Bank has continued to receive national and international awards including awards from Global Finance, IFC Asia and Finance Asia. A second Head Office has been opened in the South.

SMEs are an important part of the overall bank portfolio – by 2016 the Bank had over 70,000 SMEs and a further 1.2 million active individual customers. Heavy industry accounts for between 6-20% of the portfolio with higher risk projects accounting for less than 5% of the portfolio (i.e. large infrastructure projects, mining, oil & gas etc.). Small-scale manufacture, wholesaling, housing/property development and retail trade account for a majority of the portfolio.

The DEG FI risk rating of ‘B’ is considered appropriate to the sectoral make-up of the Techcombank portfolio.

2.2.2 Loan Facility

DEG and Techcombank started planning a loan facility in 2010. The Loan Agreement was signed in November 2011 for US\$35m from DEG (equivalent to approximately 31.1m EUR then). The loan was to be repaid in eight instalments of US\$4.375 million, the first repayment was due on 15th April 2013 and the final repayment was due on the 15th October 2016. The loan must be applied exclusively to finance eligible projects by means of sub-loans to sub-borrowers. The loan was intended to support Techcombank's investments in SMEs, which is an important area of investment for the bank.

² Information taken from: http://www.temenos.com/globalassets/mi/cs/temenos_Techcombank_cs.pdf

3. Results and Analysis

This section provides a summary of the results and analysis from the Case Study of Techcombank Vietnam 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

Techcombank has not received TA from DEG but TA has been provided by IFC with a strong focus on ESMS process and procedures. The structure of the ESMS is hierarchical with an E&S Policy, E&S categorisation/screening procedure, E&S loan conditions, E&S resources (Officers) and compliance with the DEG requirements for annual E&S reporting and is based on IFC's Sustainability Framework and accompanying E&S Performance Standards. The E&S policy is a 6-page, detailed document, which covers the E&S appraisal process for the different stages of credit appraisal.

The key stages in the process are:

- Assessment of compliance with Exclusion List;
- Allocation of risk category;
- Compliance assessment – this is largely document based and focussed on Ministry requirements, confirming that all operations comply with environmental legislation;

The Bank uses an Exclusion List which is IFC-compliant and reflective of DEG's exclusion categories. The ESMS is applied to the whole investment portfolio, which includes thousands of transactions including a large number of SMEs. As far as the system goes, the ESMS is compliant with DEG requirements. The appraisal process, however, has some shortcomings as, for example, site visits are not undertaken by the E&S team also due to the overriding concern about the anti-competitiveness of Techcombank in the banking sector. This concern is a common issue when implementing ESMS in highly competitive markets in developing countries or emerging economies.

3.1.2 E&S Resources

Senior management have appointed a manager with overall responsibility for the ESMS. She is highly-experienced with a long background in other FIs and very good knowledge of ESMS applicability to banking. She is supported, in turn, by three E&S Officers who conduct E&S as an additional part of their jobs. The E&S Officers have moved over from Credit Appraisal; they appear to have a strong working knowledge of ESMS procedures and reporting requirements including those of DEG but are not confident in their knowledge of sector environment risk (e.g. the differences in risk between a manufacturing project and agribusiness project). Training has been provided by IFC as part of their technical assistance.

At present, there are plans to also train Techcombank's Investment Managers (IMs) in E&S risk management. However, this has not been conducted to date. IMs are the only ones visiting sites but are unlikely to be familiar with E&S issues.

Contractual requirements for E&S are included in loan documentation and an annual E&S Report is produced and issued to DEG. Should other (non-routine/incident) events take place within an investee company, DEG would be alerted by Techcombank. To date this has not happened.

The main challenge facing Techcombank is in relation to the number of sub-projects – even with several E&S Officers it is reported to be impossible to review the full portfolio. For this reason, it may be prudent to look at the higher risk (high B) part of the portfolio and to advise Techcombank on application of due diligence (including site visits) to this segment of the portfolio. Techcombank have also encountered difficulties with the categorisation of risk to their very diverse portfolio and seek further guidance on this. Techcombank would also like to enhance the current training received with specific training on sector E&S risk.

The lack of experience of the E&S Officers has been a recurring theme at some of the larger, multi-branch FIs with large portfolios (and particularly in emerging markets with poorly developed E&S enforcement).

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

E&S requirements in the Loan Agreement	Compliance	Assessment of implementation
General ESMS implementation	~	Techcombank has received Technical Assistance from another DFI – in this case IFC. Through the involvement with IFC, the bank has developed and implemented a compliant ESMS. DEG’s role has been pragmatic in this case – to review the ESMS in place for compliance with DEG’s requirements. From this perspective the ESMS is adequate, however, and as risk-based management system, there are deficiencies in relation to sub-project detailed review.
Schedule 10 – Excluded Activities	✓	Techcombank comply with the Exclusion List (developed by another DFI (IFC) but compliant with DEG’s).
Schedule 11 – Category A projects	~	Constitute a small portion of the portfolio – at present compliance assessment is undertaken but site visits are not mainly due to resourcing issues.
Appointment of an Environmental and Social Manager and Environmental and Social Coordinator (Article 2.4)	✓	Senior Manager appointed with overall ESMS responsibility supported by E&S Officers.
Borrower required to comply with national environmental laws, national social and labour laws together with IFC Standards (note for High Risk Clients) – Article 13	~	Some evidence of this through preparation of the E&S annual monitoring report and checks which are carried out by the E&S Officers in relation to compliance – due diligence is planned at this stage but not implemented.

3.1.3 Management Commitment to ESMS

Whilst the ESMS elements are in place, there appears to be a reluctance to ‘impose’ the ESMS conditions on the Bank’s clients. Through consultation, it was identified that this is seen as reducing the competitiveness of the bank to attract clients. It is particularly challenging for banks in countries with less strict regulations and requirements to ‘convince’ their clients of the importance of E&S matters. FIs need to be able to demonstrate the business case for environmentally and socially-responsible behaviour. In this case, further involvement from DEG would be highly beneficial – as with several other Case Study clients, additional work is needed with the senior management team to convince them of the long-term benefit and value added to the portfolio of E&S risk reduction. The ESMS Guide, which will be issued to all of DEG’s FIs, will be helpful in introducing some of these benefits. In addition, some direct training of the senior management team and E&S Officers as part of a future TA programme would yield better results.

3.1.4 E&S Risk Categorisation by the Client

E&S risk categorisation is carried out for all investments and is based on IFC’s definition of Category A, B and C Projects. Techcombank uses a different Exclusion List (IFC-compliant) than DEG’s. Whilst this List complies with the DEG Exclusion List, DEG needs to be aware of the different lists, which is why they responded negatively to ‘use of DEG’s Exclusion List’ in their survey completion. In addition to the excluded activities on the List, Techcombank has made the decision not to invest in hydropower projects. This is mainly due to the challenges associated with the use of international rivers – Vietnam’s rivers originate in or pass neighbouring countries before reaching Vietnam – but also with the potential E&S risks of such projects.

On-site due diligence is not currently undertaken although this is planned as a next phase of ESMS development, however, it is not clear as to what resources would be available to undertake this in the absence of IM training.

3.1.5 E&S Monitoring and Reporting by the Client

No site visits are undertaken (as yet) by the E&S Officers which is also part of the competitiveness issue resulting in a cautious approach to discussing E&S performance with clients. Hence, the bank is mostly focussed on compliance with national E&S regulations and, at present, this is only checked via documentation of relevant permits provided to the Bank. The bank does not use external consultants.

3.1.6 E&S Reporting by the Client to DEG

Techcombank complete the annual E&S monitoring report for DEG in compliance with the loan agreement. As other DFIs are involved, they have had to deal with multiple reporting formats, this is time-consuming for the bank. Whilst there is approximately a 70% overlap in the information requirements between the different DFIs, each DFI is reported to have some of their own questions. The positive side is that the close involvement of IFC and other shareholders is seen as an endorsement by Techcombank's clients and is reported to be beneficial in attracting and retaining other DFI finance. It could be possible to streamline the multiple DFI requirements through acceptance, for example, of the IFC report. In general, Techcombank do not find difficulties in completing DEG's report.

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

Techcombank report that they comply with all national E&S regulations and that they and their clients are required to do so and to provide evidence thereof. Techcombank regard their ESMS as a useful process for avoiding investments which could cause them a reputation risk and regard the ESMS as helpful in attracting finance from other DFIs.

3.2.2 Effectiveness and Impact at Sub-Projects

This has not been possible to assess directly. At this stage of ESMS implementation, Techcombank are only conducting a desk-based review of their clients' E&S compliance. The assessment is focussed on permitting/national E&S laws and regulations rather than risk *per se* and the information provided has to be accepted as genuine by the reviewers. In the opinion of the E&S Officers, there it is unlikely that false information would be provided given that compliance statements are backed up with reference to actual permits obtained (e.g. for water use, waste disposal etc.).

Techcombank report that they encourage their clients to develop E&S procedures, promote sound H&S and social policies and practices and to identify opportunities for environmental additionality. There is however no material evidence of this and actual site visits would be needed to verify the situation. They believe that several of their clients have demonstrated improvements in environmental performance (energy, emissions savings etc.) through their increased environmental awareness and that, in turn, better environmental performance improves their access to international as well as domestic markets.

Environmental enforcement is reported to be weak in Vietnam due to the scale of the country and resources available. At the national level, there have been a number of high profile environmental incidents such as the Formosa Plastics steel plant spill which affected 200km of coastline – important for fisheries and tourism. The concern is that it will take further pollution incidents to effect a step change in Vietnam.

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

Techcombank are in the Control Group and have not received TA from DEG. However, their understanding of DEG's E&S requirements/expectations is good. TA has been received from IFC which has included annual refresher training with the E&S Officers. DEG requirements are reported to be clear – including for the preparation of the annual E&S report.

3.3.2 Value-added of DEG

Techcombank have not participated in the TA. The DEG relationship is restricted to reporting and compliance. The TA/training provided by IFC has been limited to the ESMS process – policy, use of Exclusion List, E&S risk categorisation, E&S requirements under the loan documentation etc. The IFC training did not cover sector E&S risk nor the application of the ESMS to individual sub-loans/case studies and how these would be managed by the E&S team.

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

The ESMS in place at Techcombank is compliant with both IFC and DEG standards. The ESMS is largely a desk-based exercise at present relying on the clients of the bank to provide accurate information of compliance with national E&S regulation and permitting requirements. There is no real way of checking this in the absence of site visits. The bank's senior management team express a reluctance to take the ESMS to the next steps largely due to concerns regarding banking competition. It is unlikely that they have a full appreciation of the benefits of a full ESMS. The DEG ESMS Guide, potentially together with future TA and training for the E&S Officers and IMs would help to get better buy-in from the bank's leadership team.

Implementation and Practical Use of ESMS by DEG's clients

- Techcombank have an ESMS in place which meets DEG's requirements (Exclusion List, appointment of senior manager with E&S responsibility, appointment of E&S Officers, E&S risk categorisation of sub-projects, assessment of E&S compliance with national regulations, completion of annual E&S monitoring report); Techcombank's ESMS is based on IFC's Sustainability Framework. DEG needs to check that Techcombank's characterisation of high risk (Category A) projects is consistent with DEG's. Clearly the categorisation will have implications for what is reported to DEG.
- The E&S Officers have moved over from Credit Officer roles and are inexperienced in sector E&S risk. Their focus is largely on procedures and compliance and it is doubtful whether the resources that are currently in place are sufficient to cope with a) the dealflow and b) the complexity/scale of the portfolio – concentration on the higher risk component with a site visit (should resources allow) would be recommended. IMs are the only ones visiting the sub-projects but they would probably struggle to recognise a E&S issues and to develop ESAPs for corrective actions.
- The practical use of the ESMS is limited by the large number of sub-projects within the portfolio – including the vast geographical as well as sector spread. It is particularly challenging in Vietnam where E&S enforcement is weak and clients need to be convinced of a real 'business case' for ESMS development/environmentally and socially-responsible behaviour. At the moment, E&S management does not appear to be proactive – behaviour is compliance focussed with financial penalties as the key driver rather than E&S performance.

Effectiveness and impact of ESMS

- Techcombank review each project against E&S risk categorisation criteria but have expressed their lack of confidence in how to apply risk groupings to different sub-sectors;

- E&S Officers are unable to visit selected sites due to resourcing problems; only IMs visit the sites;
- Techcombank believe that ESMS implementation will over time help to establish themselves as a lead bank in Vietnam but, at the current time, it may be a constraint to competition and they struggle with both the size of the portfolio and convincing customers to do anything beyond compliance given the level of E&S development in the country;
- ESMS at the client level is reported to have improved environmental performance, increased trading access to overseas markets and improved relationships with NGOs and local communities.

Functioning and Value-added by DEG

- E&S reporting is carried out to DEG and to the other DFI shareholders; Techcombank find DEG's E&S requirements clear and have no problem completing the report; Techcombank report that around 70% of the DFI reporting is an overlap however that each require something additional – it may be possible to streamline the reports. If the IFC report is acceptable, for example, then DEG's clients need to be made aware of this.
- Techcombank did not participate in the TA programme and their relationship with DEG is at arm's length although they have a full understanding of DEG's E&S requirements. The Case Study visit was timed to be just before the final loan repayment which means that it is unlikely that the relationship will strengthen unless there is a subsequent loan disbursement.