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The NGO Forum on Cambodia



FAIR FINANCE CAMBODIA

A MEMBER OF FAIR FINANCE ASIA

Research Report on Green Financing Policy Implementation in Cambodia



February 2022



វេទិកាសម្រាប់ក្រុមហ៊ុនសង្គមស្ថាប័នកម្ពុជា ផ្លូវលេខ ១១
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Report on Green Financing Policy Implementation in Cambodia

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Fair Finance Cambodia (FFC) coalition aims to contribute to the reduction of the negative impact of cross-border investments on human rights, the environment and climate change, particularly those made by multinational financial institutions, banks and insurers, and to increase inclusive economic development. FFC is operational in the country of Cambodia – wherein the Fair Finance Cambodia civil society organization (CSO) coalition leads research and engagement with the key stakeholders including financial regulatory and policymaking institutions, banking and investment associations, multilateral development banks and the academia. FFC is a member of Fair Finance Asia, a regional network of civil society organizations (CSOs) committed to ensuring that financial institutions' funding decisions in the region respect the social and environmental well-being of local communities.

Authorship

Mr. Kim Veara, Independent Consultant
Mr. Mar Sophal, NGOF's SEED Program Manager
Mr. Ouk Vannara, NGOF's Deputy Executive Director

Editor

Wasiur Rahman Choudhury
Freelance Editor working with organisations researching development and sustainability

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Acronyms

Acronym	Full Meaning
ABC	Association of Banks in Cambodia
ADB	Asia Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of South-East Asia Nations
AMS	ASEAN Member States
CBP	Code of Banking Practice
CCC	Cooperation Committee for Cambodia
CSFP	Cambodia Sustainable Finance Principles
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
E&S	Environmental and Social
EIA	Environmental Impact Assessment
ESG	Environmental, Social and (Corporate) Governance
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
FFC	Fair Finance Cambodia
FFGI	Fair Finance Guide International
FGD	Focused Group Discussion
GFIT	Green Finance Industry Taskforce
HR	Human Rights
KII	Key Informant Interviews
MEF	Ministry of Economy and Finance
MFI	Micro Finance Institutions
MoE	Ministry of Environment
MoU	Memorandum of Understanding
NBC	National Bank of Cambodia
NGOF	Non-Government Organization Forum on Cambodia
NSDP	National Strategic Development Plan
RGC	Royal Government of Cambodia
RS	Rectangular Strategy
SDG	Sustainable Development Goal
SEED	Socio-Economic Equity Development
SERC	Securities and Exchange Regulator in Cambodia
TCFD	Task Force on Climate-Related Financial Disclosures
TIC	Transparency International Cambodia
ToR	Term of Reference
UN	United Nations
USAID	United States of America for International Development

Executive Summary

The Royal Government of Cambodia (RGC) has taken steps to include green financing in its sustainable growth strategies. For the first step in banking sector, the Ministry of Environment (MoE) signed an MoU with the National Bank of Cambodia (NBC) to implement green financing in Cambodia. In 2019, the Association of Banks in Cambodia (ABC) published the "Cambodian Sustainable Finance Principles", through which Cambodian banks commit "to priorities the environment, protect our people and preserve our cultural heritage by actively assessing, managing, mitigating, offsetting or avoiding potential risks or negative impacts arising from our clients' business activities, standards or practices". Th ABC also obtained supports from various organizations for capacity building.

Since 2013, the RGC has placed a very high value on green growth to balance the economy, environment, society and culture. The purpose of the Policy on Green Growth 2013-2030 is to reduce poverty, increase economic growth, protect the environment, manage natural resources, advance societal progress and safety and uphold national cultural values. The RGC has created a legal framework for national policy implementation. This framework aims to formulate a Law on Green Growth and strategic plans, action plans and programs on green growth in line with the relevant sectors that identify specific activities and responsibilities of the relevant ministries/institutions.

So far, the National Bank of Cambodia (NBC) has not issued any policies related to green financing but has endorsed the Cambodia Sustainable Finance Principles (CSFP). The NBC has provided inputs to ASEAN, as the association is developing the ASEAN Taxonomy for Sustainable Finance. ASEAN issued a first version of the Taxonomy in November 2021; the member countries can adopt the basic requirements and develop details that are based on their national contexts. As a member state, Cambodia will follow the basic elements of the Taxonomy.

According to IFC (2019), Cambodia has made substantial progress on green financing related commitments, moving from the development stage to the implementation stage of sustainable finance policy action. What NBC observed regarding the financing of sustainability is the willingness of some banks in Cambodia to implement green financing policy. The NBC also views that it is time to implement green financing in Cambodia.

The CSFP, launched by ABC in 2019, reflect a degree of consideration for environmental and socio-cultural issues. However, it is the responsibility of the banks themselves to be prepared to establish and implement appropriate environmental and social risk management activities, especially before the approval of corporate and consumer loans. On the other hand, it is a voluntary principle and has no value as a form of binding standard to which members must adhere or legislation or regulation that should be applied by all banks operating in Cambodia.

The NBC has recognized that multi-stakeholder engagement is vital in developing an ecosystem for implementation. Thus, any single institution cannot develop and issue a green financing policy, and it requires an ecosystem in which multiple stakeholders work together. Stakeholders should include the public sector, the private sector, development partners and the CSOs. Engagement from all stakeholders is needed to create an ecosystem that develops criteria to ensure that activities are

classified as green to successfully create and implement a green financing policy. There is a need for shared understanding, commitment and actions.

The NBC acknowledges that capacity building is needed not only for NBC policymakers and implementers but also for other stakeholders working on developing and implementing green financing policy. There is a need for evidence-based research to serve as a reference for developing regulations or guidelines related to green financing. The NBC is researching the exposure of the banking sector to climate-related risks. It is imperative to follow the ASEAN taxonomy, issued at the end of 2021, to classify activities by involving all sectors.

SERC is at the studying stage of developing a green financing-related policy, such as green bonds, based on the ASEAN Taxonomy. Like NBC, SERC has not issued any requirements for securities issuers to follow any green financing guidelines yet. However, the SERC notes that securities contribute to economic growth and significant employment as the sector attracts investors to the country. This influx of investors contributes to economic sustainability. Although environmental sustainability has not yet emerged as one of the agendas in the securities sector in Cambodia, it is crucial for job creation and fiscal revenue. From the SERC's viewpoint, green bond policies cannot be expeditiously developed because it is essential to ensure that the policy will be effective and contribute to development.

SERC and other stakeholders developing green financing policies need thorough research and understanding of the impacts of green bonds. Unless green financing is defined, the investors can claim how green their projects are without taking any valid action. There are various commercial verifying and certification companies that assess whether a project or company is green when financed by a green bond, but these companies are not regulated. It would be important to coordinate for projects in Cambodia with other ministries and stakeholders, how to verify green or sustainable projects and companies. In addition, evidence-based research is required to develop a green financing policy.

There were more than 50 Cambodian banks that adopted the principles. The committee has a roadmap for implementing CSFP under the NBC-MoE-ABC umbrella, focusing on capacity-building, as it would help banks and financial institutions fully implement the principles. Each bank and financial institution are required to attend comprehensive training. Currently, the ABC is working with ASEAN Bankers' Association to develop a framework and procedure for green financing implementation. The ABC has been a member of the SBFN for three years. The SBFN has provided technical assistance, and via the SBN assessment, Cambodia has seen good progress on sustainable/green financing principles. The ABC has also benefited from the supports from the USAID, IFC and WSC.

The Cambodian Agricultural and Rural Development Bank (ARDB) is starting to implement the government's green financing. ARDB is initiating financial instruments by looking at the existing funding, such as the Green Climate Fund (GCF), which is channelled through the National Council for Sustainable Development (NCDF) at the MoE, and a secretariat to the government. Several projects are being implemented in Cambodia through GCF funding.

From the perspective of the MEF, internal loans must respect the government's Public Debt Management Strategy 2019-2023. Loan size, interest and priority sectors must be given due

consideration. Therefore, the MEF only considers concessional loans and/or loans used in the priority sectors. Loans can be only used with transparency and efficiency and on projects which promote sustainable growth.

All agree that implementing green financing policies faces some challenges. So far, green financing lacks any clear definition or criteria, although several projects claim to be green. Due to a lack of guidelines, definitions and criteria, it is difficult to identify whether projects are green or not precisely or have negative social effects that can undermine the positive environmental impacts. To implement green financing, consideration should also be given to issues like technological risks, and the risks associated with projects like solar farms should be studied. Besides technological risks, contractual reinforcement should also be considered.

The MEF views that developing green financing policy needs to examine the demand side. If there is no demand, it would not be practical. If there is a next follow up study, the methodology should include the analysis of the demand side, where the demand for green financing could be a potential for the green financing in Cambodia.

The potential provider of green financing in Cambodia is GCF. So far, the government has signed an agreement with the ADB on sustainable value chain projects with a loan size of 140 million dollars, and the Ministry of Agriculture, Fishery and Forestry (MAFF) and the MoE are key implementors. To get funding from the GCF, the MEF is also reviewing accredited entities. The ARDG has the potential to get the funding and lend to smaller projects.

Green financing is cross-cutting issue; therefore, the creation of an overarching framework for it would provide a basis for green financing policy development and implementation. If to create a green financing master plan, there is a need for identifying leading and coordinating agencies. To implement green financing policies, there is a need for human resource in the areas of project management, project implementation, monitoring and implementation, in accordance with the standards and rules.

In order to develop and implement green financing policies the study raises 6 recommendations: (1) awareness raising and capacity building for professionals, implementors and investors, should be organized by NBC to bankers focusing on the definitions and criteria for green financing; (2) financial institutions should rethink their role in society by developing clear and ambitious environmental, social and governance policies. This could be done by benchmarking the green financing regulations and policies of the international standards; (3) to motivate members of ABC to move forward in implementing the Cambodia Sustainable Financing Principles (CSFP), the regulators should consider rewarding any bank that fully complies with the CSFP. This could be done through tax exemption for banks that have gone through performance evaluation or assessment against the green finance indicators to be developed and assessed by NBC and NCSD. Or providing the banks with better access to finance themselves, from the central bank; (4) evidence-based research should be conducted by NBC to be used as a reference for the development of regulations or guidelines related to green and sustainable financing for Cambodia. First is the obligation to avoid harmful activities. Secondly, financing needs to have significant positive contributions: This could be done by adopting the ASEAN taxonomy, which was issued by the end of 2021 to classify activities involving all sectors. At the same time, banks should be required to gradually increase the number loans that align with the taxonomy; (5) as policymakers

and implementers are a novice to green financing concepts and practices, capacity building on how to develop green financing policy should be provided in data collection, assessment and evaluation for the development, implementation, monitoring and evaluation of the project. The capacity of supervisors should also be increased, including through capacity building from other central banks (e.g. through the Network on Greening the Financial Sector); and (6) in order to develop green financing policies, there is a need for clear definition of green financing projects and identifying key stakeholders. As the green financing is cross-cutting issue, Cambodia should create an overarching framework for the green financing. In the green financing master plan, leading agencies and coordinating agencies should be clearly identified for and effective management and coordination.

1) Introduction

The **Cambodia Sustainable Development Goal (CSDG)** framework was adopted in 2018 with the commitment to implement the **United Nations 2030 Agenda for Sustainable Development**. Two of the five pillars of the Agenda, *people* and *planet*, include environmental, social and governance (ESG) principles and the promotion of sustainable economic growth. To achieve this, the Royal Government of Cambodia (RGC) has taken steps to include green financing in its sustainable growth strategies. For example, the Ministry of Environment (MoE) signed an MoU with the National Bank of Cambodia (NBC) to implement green financing in Cambodia. In 2019, the Association of Banks in Cambodia (ABC) published the "**Cambodian Sustainable Finance Principles**", through which Cambodian banks commit *"to priorities the environment, protect our people and preserve our cultural heritage by actively assessing, managing, mitigating, offsetting or avoiding potential risks or negative impacts arising from our clients' business activities, standards or practices"*. The NBC appreciates and stands witness to the initiative while encouraging banks in Cambodia to consider these principles when offering loans to businesses. NBC will develop a green financing policy based on the ASEAN taxonomy, published in November 2021.

The finance and banking sectors have been considered to play an essential role in promoting sustainable economic growth. The proliferation of a large number of banking and financial institutions by 2019 in Cambodia is a clear testament to the growth of economic activity in the country, including a rise in investment or development projects, which matches to aims of the Development Policies of the RGC¹. The damage to the environment and resources caused by unsustainable development projects can often be indirectly and, in some cases, directly linked to financial institutions' credit policies and lending practices. This issue becomes more acutely evident if these institutions do not require their clients to conduct environmental and social impact assessments as part of the loan usage policies for development projects. A recent study by **Fair Finance Cambodia (FFC)** on the **Social and Ecological Impact Assessment (ESIA)** compliance in the banking sector in Cambodia proposed clear policy options for both the banking sector and the MoE.

New non-banking sector actors that facilitate sustainable/responsible financial markets have emerged in many different forms in response to recent macroeconomic policies and socio-economic development and growth in Cambodia. Among them, the **Securities and Exchange Regulator in Cambodia (SERC)** has played a crucial role as a regulatory body on securities and exchange transactions in Cambodia, which is essential for promoting ESG frameworks and integrating the **United Nations Guiding Principles on Business and Human Rights (UNGPs)** criteria. To understand the implementation of ESG policies and regulations by SERC, FFC, through the NGO Forum on Cambodia, undertook a study to examine if SERC's policies and regulations have incorporated ESG principles in regulation and enforcement, focusing primarily on green financing.

¹ For example, the Rectangular Strategy 2019-2023, the National Strategic Development 2019-2023 and Industrial Development Policy 2015-2019.

There is a need for transparency and accountability vis-à-vis the policies and regulations of SERC so that key stakeholders, including CSOs, can monitor their implementation and progress. This would also entail encouraging the existing and new clients of banks and the financial sector to change their practices to align with international standards and national legislation and regulations to promote ESG in Cambodia.

2) Objectives of the Study

The purpose of the study was to identify critical challenges and provide recommendations for the effective implementation of green financing policies in the financial sector, especially for the SERC.

Specifically, the study aims:

- To identify green financing regulations and requirements that SERC regulates (with particular emphasis on ESG, environmental and climate change, with UNGP criteria and Fair Finance Guide International Methodology², including but not limited to other ESG principles such as the Equator Principles and the Cambodia Sustainable Banking Principles where possible).
 - To examine the progress and challenges in enforcing these regulatory processes and the trends of enforcing green financing regulations by SERC and for SERC's market participants' policies.
- To develop a green financing policy brief outlining alternative options for implementing better green financing policies in Cambodia.
- To present green financing policy recommendations to facilitate FFC to engage a wide range of stakeholders to develop and enforce ESG principles. These include SERC, MEF³, MoE⁴, and multi-stakeholder bodies such as the ADB⁵, WB⁶, AIIB⁷, UNFCCC⁸, NBC⁹, ABC¹⁰ and MFI¹¹.

² For the full FFGI Methodology, please visit <https://fairfinanceguide.org/media/497246/ffg-policy-assessment-methodology-2021.pdf>

³ Ministry of Economy and Finance.

⁴ Ministry of Environment

⁵ Asian Development Bank

⁶ World Bank

⁷ Asian Infrastructure Investment Bank

⁸ United Nations Framework Convention on Climate Change

⁹ National Bank of Cambodia

¹⁰ Association of Bank in Cambodia

¹¹ Micro-Finance Institution

3) Methodologies

FFC produced the research report and policy brief based on desk review using a qualitative approach for data collection and analysis to generate research findings and recommendations. The study utilized the following methods:

3.1- Collection of Secondary Data and Information

For obtaining secondary data, the research team conducted a literature review, examined existing documents, reports, intellectual resources about legal tools and policies, legal frameworks, and practices about green financing policies implementation, and its enforcement on the integration of ESG and HR criteria in the financial sector, especially of SERC, MoE, MEF and national governments. In addition, the research team searched for documents from the websites of major banking and government institutions like NBC and ABC, MoE and multilateral development banks like MFI, ADB, WB, AIIB.

The following key questions guided the research team in conducting a literature review on green financing in Cambodia:

1. What are the green financing policies available in Cambodia?
2. How far has implementation reached for these policies? What have been the most significant achievements and challenges in this, and why?
3. What is the trend of green financing policy enforcement by the SERC?

3.2- Collection of primary data and information

The research team, with assistance from an external consultant¹², conducted separate interviews with Key Informant Interviewees (KIIs). The KIIs could discuss, share and exchange ideas and experiences relevant to green financing policies and their enforcement on the integration of ESG and HR criteria in the capital market, SERC, and the financial sector by national governments, other banks, and MFIs. There were two KIIs from each selected institution. Institutions selected for interviewing included:

- The Department of Environmental Impact Assessment of the Ministry of Environment, to find out about the current legal tools and the implementation of related policies on green financing.
- Securities and Exchanges Regulators in Cambodia, to determine their engagement in the enforcement of green financing and integration of ESG and HR criteria framework.
- MEF, to find out their enforcement of green financing policy implementation and integration of ESG and HR criteria framework

¹² Kim Veara is the external consultant participated in the interviews, write up interview finding, present findings in workshops and revise the reports based on comments during the workshops and other report reviewers.

- NBC, the top governing body for banking systems and operations in Cambodia, to understand their goals and working approaches.

Furthermore, a validation workshop with key actors (including MEF, NBC representatives, SERC, WB and CSOs/NGOs, and the private sector) was held on November 16. Thirty-five stakeholders attended the workshops to validate and input the draft findings and recommendations.

3.3 Limitations of the Study

- The research team could not meet and interview the officials from the Department of Environmental Impact Assessment of the MoE because they did not receive a response to their request letter¹³ for interviewing the necessary officials from the Ministry.
- The research team was allowed to meet and interview officials from the Ministry of Economy and Finance (MEF) after the final draft, therefore, major changes on the draft would be difficult to make.
- The study does not aim at examining the supply side of green financing as it attempts to analysis the available policies and implementation, which could be based for the next study.
- However, these limitations were addressed by a validation workshop, in which a representative from the MEF attended and expressed his views on green financing in Cambodia. To compensate for the lack of a statement from the MoE, the research team gathered information from desk reviews and stakeholders who have previously worked with the MoE.

¹³ NGOF's Letter of request #081 SEED to Ministry of Environment dated on 27 Sept.2021

4) Results of Research Study

4.1 What is green financing?

Sustainable finance involves making investment decisions that consider financial returns and environmental, social, and governance (ESG) factors. Often used interchangeably¹⁴ with "green finance", it is a broad term with multiple definitions, depending on context.

Six main groups contribute to sustainable financing or green financing. These include:

1. Banks
2. Corporations
3. Institutional Investors and Retail Investors
4. Central Banks
5. International Financial Institutions (IFIs)
6. Green Funds.

Green¹⁵ financing aims to prioritize financial flows to financially friendly projects through banking, micro-credit, insurance, and investment from the public, private and not-for-profit sectors. Integral to green financing is better management of environmental and social risks, are the opportunities that provide ecological benefits with a decent rate of return, and greater accountability.

Some of the ways to promote green financing are:

- through changes in countries' regulatory frameworks
- harmonizing public financial incentives
- increased green financing from different sectors
- aligning financial decision-making of the public sector with the environmental dimension of the SDGs
- increasing investment in clean and green technologies
- funding for sustainable natural resource-based green economies and climate-smart blue economy
- expanding the issuance of green bonds.

The **UN Environment Program (UNEP)** and UNEP FI have been working with countries, financial regulators and the finance sector to align financial systems to the 2030 sustainable development agenda. At the core of today's globalized economy are financial markets through which banks and investors allocate capital to different sectors. Today's capital allocation will shape tomorrow's ecosystems and production and consumption patterns.

¹⁴ Landscape News-Sustainable finance 101: How to mobilize funds for planet-
<https://news.globallandscapesforum.org/40996/40996-what-is-sustainable-finance/#what>

¹⁵ <https://www.unep.org/regions/asia-and-pacific/regional-initiatives/supporting-resource-efficiency/green-financing>

The main areas for the current work on green financing are:

1. Supporting the public sector in creating an enabling environment
2. Promoting public-private partnerships on financing mechanisms
3. Issuing green bonds
4. Capacity building of community enterprises on micro-credit.

Through its resource efficiency program, UNEP will offer to review countries' policy and regulatory environments for the financing system to develop sustainable finance roadmaps. It will also assist central banks and regulators in improving the regulatory framework of domestic financial markets to shape the way and support multi-country policy initiatives at the sub-regional, regional, and global levels. UNEP will build on current initiatives such as private climate finance and work with policymakers and private sector leaders to connect to green economy initiatives. UNEP will also catalyse policy action that inspires and informs public and private investors. Multi-stakeholder partnerships will be promoted to include prominent actors in financial markets, banks, investors, micro-credit entities, insurance companies, CSOs and the public sector.

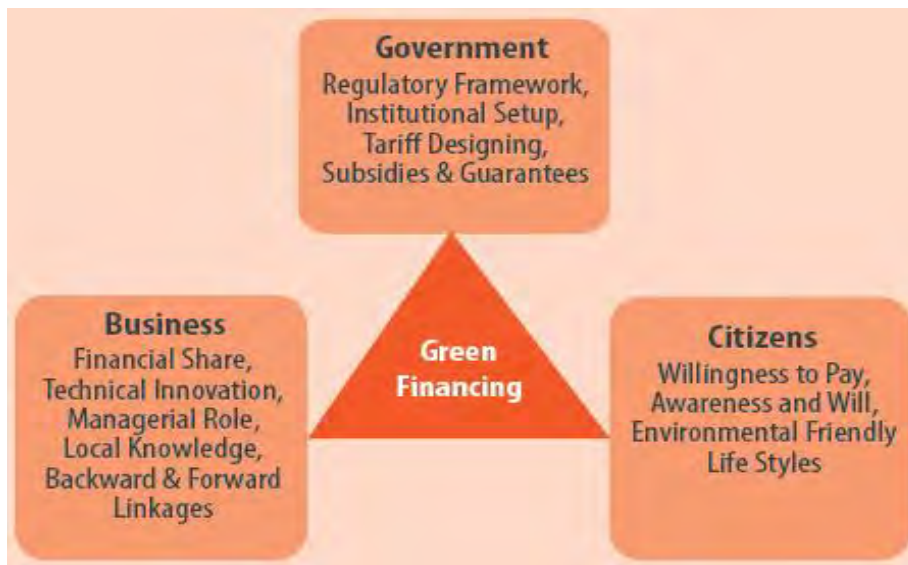


Figure 1: Adopting from UNEP Multi-stakeholder partnerships for Green Financing

4.2 Global Agenda 2030

The United Nations has developed the 2030 Agenda for Sustainable Development (UN, 2015) to guide the transformation towards a sustainable and inclusive economy. The 17 UN Sustainable Development Goals (SDGs) stimulate action over the 2015-2030 period in areas of critical importance for people and the planet. Following Rockström and Sukhdev (2015), the SDGs are classified according to the levels of the **economy**, the **society**, and the **environment**:

Economic goals:

- Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 10: Reduce inequality within and among countries
- Goal 12: Ensure sustainable consumption and production patterns

Societal goals:

- Goal 1: End poverty in all its forms everywhere
- Goal 2: End hunger, achieve food security and improve nutrition and promote sustainable agriculture
- Goal 3: Ensure healthy lives and promote well-being for all at all ages
- Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5: Achieve gender equality and empower all women and girls
- Goal 7: Ensure access to affordable, reliable, sustainable, and modern energy for all
- Goal 11: Make cities and human settlements inclusive, safe, resilient, and sustainable
- Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels

Environmental goals:

- Goal 6: Ensure availability and sustainable management of water and sanitation for all
- Goal 13: Take urgent action to combat climate change and its impacts
- Goal 14: Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
- Goal 15: Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss

Overall goal:

- Goal 17: Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development

4.3 Action Taken by ASEAN toward achieving the global agenda 2030:

The growth in the **Association of Southeast Asian Nations (ASEAN)** region has come at a tremendous environmental expense. Air pollution, water contamination and deforestation are just a few issues that affect ASEAN countries.¹⁶ The region's high vulnerability to climate change exacerbates these negative trends, contributing further to negative social and economic impacts. Also, ASEAN faces the challenge of not achieving the SDGs and previous (social and economic) advancements might have been at the expense of the environment. According to United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), ASEAN is making a slow progress to achieve the 17 SDGs. Numerous estimates indicate the need for considerably higher financing per country (depending on the economy), region and sector to accomplish the SDGs. Cambodia is already facing a funding gap of 49-59% of GDP before the COVID-19 pandemic.

The finance ministers and central bank governors from members of the ASEAN developed several guidelines to mitigate these negative impacts. These include the **ASEAN Green Financial Guide**, **ASEAN Green Bond Standards**, **ASEAN Taxonomy of Sustainable Finance (ASEAN Taxonomy)** (ASEAN, 2021). The development of “green taxonomy” is considered complicated as it requires scientific and evidence-based criteria.

For instance, on March 30, 2021, finance ministers and central bank governors from members of the ASEAN [announced](#) their support for an ASEAN Taxonomy. Like the [Taxonomy Regulation](#) in the European Union, the ASEAN Taxonomy will serve as ASEAN's common language for sustainable finance. The ASEAN Member States (AMS) are finalizing it and expect to release it by the end of 2021. The ASEAN Taxonomy will likely become the overarching guide for all AMS, complementing their respective national sustainability initiatives and serving as ASEAN's common language for sustainable finance.

Among AMS, Singapore has been leading in its efforts toward getting the taxonomy of sustainable finance on board. For instance, On January 28, 2021, Singapore's **Green Finance Industry Taskforce (GFIT)** launched a [consultation](#) on a proposed taxonomy (the "**Taxonomy**") for financial institutions to identify green and transitional activities.¹⁷ The Taxonomy is intended to provide a common framework for a classification upon which financial products and services can be built and combat greenwashing by setting out definitive criteria for greenness in Singapore. The Taxonomy consultation builds upon Singapore's exemplary efforts to regulate and develop its green finance markets, including the Monetary Authority of Singapore's recently issued Environmental Risk Guidelines for asset managers, banks and insurers

¹⁶ <https://www.climatebonds.net/2019/01/asean-green-finance-new-climate-bonds-reports-asean-green-finance-state-market-2018-asean>

¹⁷ <https://www.mas.gov.sg/news/media-releases/2021/industry-taskforce-proposes-taxonomy-and-launches-environmental-risk-management-handbook>

4.4 What are the green financing policies available in Cambodia?

In early August 2019, the Association of Banks in Cambodia signed two memorandums of understanding (MoUs) on "**Cooperation of Sustainable Finance**" with the MoE, the NBC and the United States Agency for International Development (USAID) to strengthen and develop sustainable financial cooperation in the banking sector. The goal of the MoUs was to improve and develop sustainable financial cooperation in the banking sector and support environmental protection, natural resource management and climate change in the Kingdom¹⁸.

For the Royal Government of Cambodia (RGC), the following are the relevant national legal frameworks that support green financing¹⁹:

- Cambodia Climate Change Strategic Plan 2014-2023
- RGC, MoE, Climate Change Action Plan 2016 – 2018
- The Convention on Biological Diversity, ratified by Cambodia in 1995
- Biodiversity Country Profile Cambodia
- Cambodia National Biodiversity Strategy and Action Plan (February 2016)
- Cambodia National REDD+ Strategy 2017-2026 (Reducing Emissions from Deforestation and Forest Degradation in developing countries)
- Cambodian Ministry of Environment
- National regulations requiring Environmental Impact Assessment for specific projects (e.g. Draft law on Environmental Impact Assessment, Draft Environment and Natural Resources Code of Cambodia)
- Country Environment Profile, Royal Kingdom of Cambodia (produced with support from the European Union Delegation to Cambodia, April 2012)
- CITES - the Convention on International Trade in Endangered Species of Wild Fauna and Flora

For the environmental sector, there are vital legislations such as:

- (1) 1996 Law on Natural Resources Management and Environmental Protection
- (2) 1999 Sub-Decree no. 72 on Environmental Impact Assessment Process

¹⁸ <https://www.phnompenhpost.com/business/national-bank-cambodia-calls-green-finance-policies>

¹⁹ <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles+-+Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>

(3) 2009 Prakas no. 376 on General Guideline for Preparing the Initial Environmental Impact Assessment

(4) 2020 Prakas no. 021 on Classification of Development Projects for Environmental Impact Assessment

(5) Other relevant sub-decrees²¹ on pollution control and Prakas on the use of terms of references for some development projects²².

For environmental protection policies in the context of social and ecological impact assessments, Cambodia's legal framework has not yet given attention to promoting environmental and social issues and natural resource protection within the banking and finance sectors. Existing legislation has only aimed at sharpening technical work and improving the efficiency of management of environmental and social impact assessments, with specific guidelines from the Ministry of Environment. There is no legal basis or provision for the inclusion or integration of this assessment in the policies and practices of the financial sector in Cambodia. This shortcoming underscores the current need to scrutinize the social and environmental impacts possibly resulting from loans or lending to development projects.

The practice so far has been for project owners or clients receiving loans or credit from international banks (like ADB, WB or IFC) to diligently study and prepare environmental and social impact assessments to absolutely meet the rightful conditions of those banks. These conditions reflect the recognition of concerns about environmental-social issues and long-term sustainable development, which are currently actively discussed topics in the context of development. The provision of loans or credit in any amount enables clients or project owners to develop several large-scale projects that could pose significant risks and impact the environmental and social resources of the communities in which they are located. The financing provides clients with sufficient capacity to clear, build, utilize resources, and operate their projects on a large scale, potentially leading to disruptions or conflicts with resources and livelihood activities of people in and around the project areas.

Code of Banking Practice (CBP): The ABC introduced the CBP in 2015, which asserts the criteria for providing credit to customers. Clause 12.1 of the CBP recommends that banks conduct diligent and prudent operations in assessing their customers' ability to repay credit facilities. There are five criteria²⁰ set out to check information and data to examine credit repayment ability. The code and requirements for pre-lending assessments do not emphasise environmental and social issues that may affect the client's business. These impacts may reduce the client's ability to repay the loan.

Cambodia Sustainable Finance Principles (CSFP): It was initiated by the ABC and endorsed by NBC in 2019. The main objectives of the CSFP are to:

- Properly establish and implement environmental and social risk management
- Sustainably develop and promote business opportunities

²⁰ The five criteria include (1) income and financial commitments, (2) prior knowledge of customer's financial affairs, (3) information obtained from credit agencies, including Credit Bureau Cambodia, (4) credit assessment techniques such as credit scoring and (5) security provided, if any.

- Integrate sustainability into the banking business
- Collaborate with all stakeholders, including governments, authorities, investors and international partners
- Provide capacity development and knowledge sharing.

With the CSFP, the NBC and the ABC signed a joint MoU²¹ with the MoE on July 31, 2019, to formally define cooperation between the three parties in contributing to environmental protection, natural resource management and climate change that could affect the banking sector in Cambodia. This MoU is a testament to the solidarity, contribution, responsibility, and commitment to achieving the goals of equitable and sustainable development.

The MoU sets out the following key commitments:

- Mutual collaboration and assistance to build capacity and raise awareness amongst officials, staff and individuals involved in sustainable financial practices
- Share information and documents related to sustainable financial practices.
- Collaboratively organize a program to raise public awareness of sustainable financial principles.
- Technical collaboration and assistance in developing and implementing sustainable financial principles.
- Provide cooperation and coordination with relevant organizations or institutions to develop and implement sustainable financial policies.

5) What has been the progress so far in implementing green financing policies? What have been the most significant achievements and challenges in implementing green financing policies, and why?

5.1 Key achievements and good practices and impacts:

Based on the practices of members of the ABC, banks and MFIs assess and manage environmental (and social) risk issues through an **Environmental and Social Management System (ESMS)**. The ESMS is customized according to their specific business activities, operations, client base, and the types of products and services they provide²².

The critical elements of a bank/MFI's ESMS include:

- **Environmental and Social (E&S) Policies.** A general E&S Policy (or Sustainable Finance Policy, or Sustainability policy) covers both the bank/MFI's Business Activities and Business

²¹ Ibid, p.6

²² Principle 1 of Cambodian sustainable financial principles implementation guideline : <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles+-+Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>

Operations and a Prohibited/Excluded Activities List. Specific E&S policies cover particular industry sectors, themes (like climate change) or financial products.

Banks/MFIs should endeavour to align their E&S policies with the relevant Cambodian national strategies and commitments. For example, a bank/MFI's climate change policy should seek to align investments with the Cambodian Climate Change Strategic Plan / Climate Change Action Plan.

- **E&S Procedures and Tools**, which provide detailed guidance on consistently implementing the E&S policies and integrating E&S risk due diligence into the loan/investment decision-making processes, including monitoring the E&S aspects of the loan/investment portfolio.
- **E&S governance structure**, tailored to the size and complexity of the bank/MFI and the bank/MFI's E&S risk profile.
- **E&S reporting (internal and external)**, which may include reporting on E&S performance of Business Activities and Business Operations (including climate reporting), the implementation of relevant standards, and fulfilling other E&S objectives/ commitments as stated in the bank/MFI's E&S policies.
- **E&S capacity building for policy makers and implementers**, which, when done regularly, supports the effective implementation of the overall E&S policy and procedures framework and ensures compliance with the Cambodian Sustainable Finance.

Some of the strengths or enabling factors²³ for green financing policy implementation in Cambodia are:

1. political stability
2. good economic performance
3. adequate state capacity for regulation and supervision of the financial sector (including foreign financiers)
4. relatively low-carbon lifestyle to date
5. availability of ample and untapped natural resources
6. progress in information technology development and innovation

5.2 Key Challenges:

In 1996, 1998, and 1999, the Royal Government of Cambodia enacted critical regulations in the banking and financial sector to regulate and control banking institutions and maintain the banking system's stability. These regulations sought to strengthen public trust, attract investors, and enhance efficiency, robustness, competitiveness, and high integration to maintain price stability in

²³ Page 24 of OECD report on making growth green inclusive -The case of Cambodia <https://www.oecd-ilibrary.org/docserver/5k420651szren.pdf?expires=1628570800&id=id&accname=guest&checksum=4988B4B777FD89D5193DE3523CB8D566>

line with Cambodia's financial sector development strategy. It has made significant contributions toward ensuring the balance of Cambodia's economy and promoting investment.

The RGC has also considered managing natural resources and the environment since establishing the Ministry of Environment in 1993 and introducing a law on the management of natural resources and environmental protection in 1996. Significant investments or development projects require bank loans to ensure capital security for operations, whether within the country or abroad. However, banks may find it unpractical to provides loans, which takes long time for repayment. In general, such large investment projects often pose risks and damage to the environmental and social resources in and around the project area. These include air and water pollution, deforestation, biodiversity loss, disregard for labour rights, and poor living and working conditions. The loans also indirectly contribute to the impacts of projects that receive such loans.

Good governance is at the heart of the RS, the NSDP and the Green Growth Roadmap, and so is the ESG. It is one of the four strategic goals of the RS-IV and is clearly defined. It seeks to strengthen further the capacity and governance of public institutions at both national and sub-national levels, ensure effective and efficient delivery of public services to serve the people better, and improve the business and investment environment. Therefore, the relevant line ministries of the RGC should ensure their respective policy priorities align to the RS-IV, especially strategic goal number 4. Yet, despite recognizing the need for good governance, it is not uncommon to see evidence of poor governance and contradicting policies like the lack of environmental law enforcement and undocumented Economic Land Concessions (ELC) including:

- According to a case study by the OECD²⁴, Cambodian citizens and decision-makers lack awareness of the concept of green growth and on how to seize the opportunities it offers, such as making the economic case of investing in climate-resilient urban infrastructure.
- There is limited institutional coordination. Although inter-ministerial working groups were set up, communication and coordination for more coherent policymaking takes time and requires authentic leadership.
- Due to Cambodia's lack of a coherent energy plan and investment in the sector, the country depends on imported oil and hydropower even though it can utilize existing domestic renewable resources to generate electricity and become energy independent.

²⁴ Page 25 of OECD report on making growth green inclusive-The case of Cambodia <https://www.oecd-ilibrary.org/docserver/5k420651szzren.pdf?expires=1628570800&id=id&accname=guest&checksum=4988B4B777FD89D5193DE3523CB8D566>

6) What is the trend of green financing policy enforcement?

6.1 Practices of the International Banks

To contribute to sustainable or green finance, both banks and funding agencies have developed and implemented strategic regulations, policies, and strategies to identify and integrate environmental and social risks in their work to support responsible economic development. The safeguard policies are the broader mechanism required by top management. Such policies will help prioritize the environmental and social issues and governance in decision-making, provide technical concepts and tools to assist the development process and promote public participation and transparency in development.

6.1.1 Practices of the World Bank:

The World Bank will classify all projects (including projects involving Financial Intermediaries (FIs) into four groups: according to climate/environmental/ESG/SDG/sustainability risks and impacts:

- High Risk
- Substantial Risk
- Moderate Risk
- Low Risk

In determining the appropriate risk classification, the bank will consider relevant issues like:

- the type, location, sensitivity, and scale of the project
- the nature and magnitude of the potential environmental and social risks and impacts
- the capacity and commitment of the Borrower (including any other entity responsible for implementing the project) to manage the environmental and social risks and impacts in a manner consistent with the ESSs.

Depending on the specific project and the context in which it is being developed, other risk areas may also be relevant to the delivery of social and ecological mitigation measures and outcomes. These could include legal and institutional considerations, the nature of the proposed mitigation and technology, governance structures and legislation, and concerns relating to stability, conflict or security.

The World Bank will require borrowers to use different methods and tools to carry out environmental and social impact assessments and document the results, including the implementation of mitigation measures²⁹.

These methods are:

- (1) Environmental and Social Impact Assessment – (ESIA)
- (2) Environmental and Social Audit (ESA)
- (3) Hazard or Risk Assessment (H&RS)
- (4) Cumulative Impact Assessment (CIA)
- (5) Social and Conflict Analysis (SCA)
- (6) Environmental and Social Management Plan (ESMP)
- (7) Environmental and Social Management Framework (ESMF)
- (8) Regional Environmental and Social Impact Assessment (RESIA)
- (9) Sectoral Environmental and Social Impact Assessment (SESIA)
- (10) Strategic Environmental and Social Assessment (SESA)

The World Bank has set up and approved 10 **Environmental and Social Standards (ESSs)** as conditions that the borrower must apply to identify and assess the risks and impacts on the environment and communities from any project financed by the World Bank. The World Bank believes that using these standards by focusing on identifying and managing environmental and social risks will support borrowers to reduce poverty and sustainably increase prosperity for the benefit of the environment and their citizens.

The standards will:

1. support borrowers in achieving good international practices relating to environmental and social sustainability
2. assist borrowers in fulfilling their national and international environmental and social obligations
3. enhance non-discrimination, transparency, participation, accountability and governance
4. enhance the sustainable development outcomes of projects through ongoing stakeholder engagement²⁵

The effective implementation of the following Environmental and Social Standards (ESSs) is akin to a license for executing the project in the context of sustainable development:

- Environmental and Social Standard 1 (ESS1): Assessment and Management of Environmental and Social Risks and Impacts
- Environmental and Social Standard 2 (ESS2): Labour and Working Conditions
- Environmental and Social Standard 3 (ESS3): Resource Efficiency and Pollution Prevention and Management

²⁵ World Bank (2017). *The World Bank Environmental and Social Framework*. International Bank for Reconstruction and Development. Washington, DC (p. 8)

- Environmental and Social Standard 4 (ESS4): Community Health and Safety
- Environmental and Social Standard 5 (ESS5): Land Acquisition, Restrictions on Land Use and Involuntary Resettlement
- Environmental and Social Standard 6 (ESS6): Biodiversity Conservation and Sustainable Management of Living Natural Resources
- Environmental and Social Standard 7 (ESS7): Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
- Environmental and Social Standard 8 (ESS8): Cultural Heritage
- Environmental and Social Standard 9 (ESS9): Financial Intermediaries
- Environmental and Social Standard 10 (ESS10): Stakeholder Engagement and Information Disclosure

Policymakers have many ways to shape and nurture green and social finance markets around their policy agendas. Innovative policy instruments are available to the government to mobilize public and private resources for sustainable development. More immediately, governments can perhaps reshape existing policy to align it better with local market conditions through various policy actions such as²⁶:

- (1) Current policy that develops green and social finance in Asia and beyond
- (2) Policy opportunities
- (3) Policy instruments.
- (4) regulations
- (5) legislation

These should link to three strategic policy directions especially relevant in developing Asia, such as:

1. aligning finance with the SDGs while safeguarding financial stability
2. developing market infrastructure and ecosystems for sustainable finance and growth
3. expanding fiscal revenue to ensure green and inclusive recovery.
4. What is being discussed in many forums and countries dealing with sustainable finance is the need for reporting by companies about their ESG and due diligence policies and implementation. For instance, the G20 is promoting a basic international standard and there are new international ESG accountancy standards being set up (IFRS Foundation).

²⁶ Page 130 of ADB on Financing a green and inclusive recovery
<https://www.adb.org/sites/default/files/publication/692111/ado2021-theme-chapter.pdf>

6.1.2 Practices of the Asian Development Bank:

The Safeguard Policy Statement (SPS) of the Asian Development Bank (ADB) was modified and approved officially in 2009. It aims to manage environmental and social resources risks resulting from the ADB-financed projects.

The objectives of this SPS are:

1. To avoid adverse impacts of projects on the environment and affected people where possible.
2. To minimize, mitigate, and/or compensate for adverse project impacts on the environment and affected people where avoidance is not possible.
3. To support borrowers/clients in strengthening their safeguard systems and develop their capacity to manage the environmental and social²⁷ risks

There are three central environmental safeguard policies that are regularly updated. These are:

1. Policy on Involuntary Resettlement (1995)
2. Policy on Indigenous Peoples (1998)
3. Environmental Policy (2002)

The updates of these policies are to:

1. better articulate the safeguard policies to improve their clarity, coherence and consistency
2. balance a front-loaded procedural approach with one also focused on results during implementation
3. adapt policy implementation to an evolving range of lending products and innovative financing modalities
4. work toward greater harmonization with safeguard practices across MFIs and tailor safeguard approaches to different clients with varying capacities
5. improve internal processes and resource²⁸ allocation

In pursuit of these policies' objectives, ADB adopts a set of specific safeguard requirements that Borrowers or Clients must meet in addressing environmental and social risks during the project preparation and implementation.

These safeguard requirements include²⁹:

- Safeguard Requirements 1: Environment
- Safeguard Requirements 2: Involuntary Resettlement
- Safeguard Requirements 3: Indigenous Peoples

²⁷ ADB (2020). *Effectiveness of the 2009 Safeguard Policy Statement*. Asian Development Bank. Manila. The Philippines

²⁸ ADB (2009). *Safeguard Policies Statement, 2009*. Asian Development Bank. Manila. The Philippines

²⁹ (ibid, p. 28)

- Safeguard Requirements 4: Special Requirements for Different Finance Modalities

The ADB will not finance projects that do not comply with its safeguard policy statement, nor will it finance projects that do not comply with its social and environmental governance laws and regulations, including those that implement host country obligations under international law³⁰. In addition, ADB will not finance activities on the prohibited investment activities list. For policy implementation, the ADB will carry out project screening and categorization at the earliest stage of project preparation when sufficient information is available for this purpose.

ADB undertakes screening and categorization of loans to:

1. reflect the significance of potential impacts or risks that a project might present
2. identify the level of assessment and institutional resources required for the safeguard measures
3. determine disclosure requirements

6.2 Actions Taken by Royal Government of Cambodia:

Since 2013, the RGC has placed a very high value on green growth to balance the economy, environment, society and culture. The purpose of the Policy on Green Growth 2013-2030 is to reduce poverty, increase economic growth, protect the environment, manage natural resources, advance societal progress and safety and uphold national cultural values.

To ensure this, the RGC has established the **National Council on Green Growth (NCGG)** as a direct assistant to the RGC and **General Secretariat for Green Growth (GSGG)** of the NCGG. The NCGG has now been renamed as the **National Council for Sustainable Development (NCSD)**. NCSD has assisted the government in the development of legislation and policies related to the sustainable development – National Green Growth Policy, National Biodiversity Strategy and Action Plan, National Environment Strategy and Action Plan, National REDD+ Strategy, and the upcoming Environment and Natural Resource Code and National Research and Development Agenda for Sustainable Development – and created the inter-ministerial technical working groups for climate change, green economy, biodiversity, and science and technology.

In addition, the RGC has created a legal framework for national policy implementation. This framework aims to formulate a Law on Green Growth and strategic plans, action plans and programs on green growth in line with the relevant sectors that identify specific activities and responsibilities of the relevant ministries/institutions. It will also establish a green growth agent team at the local authority level and review regulations related to green growth³¹.

³⁰ (ibid, p. 28)

³¹ Page 4-5 of national policy on green growth approved by council of minister on 01 March 2013
<https://www.greengrowthknowledge.org/sites/default/files/downloads/policy-database/2013%20Cambodia%20National%20Policy%20on%20Green%20Growth.pdf>

The **Mekong Strategic Partners (MSP)**, **Green Climate Fund (GCF)** and **USAID** are leading an initiative to launch a **Green Financing Institution** to catalyse green investment in Cambodia that align with this national policy. The Green Financing Institution will support and enable Cambodia's shift towards a greener economy and society, boosting its resilience to the impacts of climate change. MSP seeks to develop partnerships with interested parties to pioneer green financing in Cambodia and create an innovative and scalable model for green investment across South East Asia³². Applying for green financing from the GCF, there is a need to follow a strict guidance in the GCF's funding proposal (FP) templates for standard proposal approval process (PAP) and simplified approval process (SAP) along with practical tips for completing the templates.³³

6.2.1 Action taken by the National Bank of Cambodia

So far, the National Bank of Cambodia (NBC) has not issued any policies related to green financing but has endorsed the Cambodia Sustainable Finance Principles – Implementation Guidelines developed by the ABC. However, the NBC has provided inputs to ASEAN, as the association is developing the ASEAN Taxonomy for Sustainable Finance, which the member countries will use as guidelines. ASEAN issued a first version of the Taxonomy in November 2021³⁴, the member countries can adopt the basic requirements and develop details that are based on their national contexts. It will also serve as the basis for developing Cambodian Green Financing Policies. As a member state, Cambodia will follow the basic elements of the Taxonomy, which will serve as ASEAN's common language for sustainable finance, accounting for both international goals and ASEAN's and each ASEAN country's specific needs. Although the NBC has not yet issued the policy, according to IFC (2019), Cambodia has made substantial progress on green financing related commitments, moving from the development stage to the implementation stage of sustainable finance policy action. The NBC also views that it is the right time to implement green financing in Cambodia.

Overall, NBC views green financing as vital for sustainable development, and it is not a new context within the framework in which all actors/stakeholders are interested. What NBC observed regarding the financing of sustainability is the willingness of some banks in Cambodia to implement green financing policy. In addition, developing and implementing green financing requires capacity from stakeholders. It is worth noting that the green financing policy is not the NBC or any single agency's sole responsibility but requires the involvement of multiple ministries and agencies.

The ABC has developed a sustainable financing policy that focuses on environmental protection, the preservation of culture, traditions, history, and social values in Cambodia. This policy intends to develop and establish appropriate environmental and social standards for Cambodia. For the protection of the environment, citizens, and heritage property, this policy sets out several key points, such as:

- assessment and management of environmental risks related to climate change

³² <https://wastesummitcambodia.com/wp-content/uploads/2020/10/Cambodian-Green-Financing-Institution-Teaser.pdf>

³³ <https://www.greenclimate.fund/sites/default/files/document/fp-template-guidance-note.pdf>

³⁴ <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

- pollution
- waste management
- protection of vulnerable natural resources
- assessment and management of risks that may adversely affect people, especially rural communities, workers, and indigenous peoples, and cultural heritage, including language, culture, traditions, and historical sites
- assessment and management of risks that may have a serious negative impact on heritage, including language, culture, traditions and other monuments

Therefore, the Cambodian Sustainable Finance Principles (CSFP), launched by the Association of Banks in Cambodia (ABC) in 2019, reflect a degree of consideration for environmental and socio-cultural issues. However, it is the responsibility of the banks themselves to be prepared to establish and implement appropriate environmental and social risk management activities, especially before the approval of corporate and consumer loans. On the other hand, it is a voluntary principle and has no value as a form of binding standard to which members must adhere or legislation or regulation that should be applied by all banks operating in Cambodia (and its implementation supervised by the NBC). The association only encourages and motivates its members by acknowledging their compliances and efforts through certification and recognition.

Recommendation: The regulators should consider rewarding any ABC member bank that fully complies with the CSFP to motivate them in implementing it. One way to do this is through tax exemption for banks, evaluated based on adherence to the CSFP's key indicators.

In practice, while the NBC has not issued any Prakas or orders on green financing, it has worked with partners to assess the impact of loans on climate changes which also shed light on policy development. Despite NBC not having issued any orders on green financing, the banking sector in Cambodia has started implementing green financing. At the preparation stage of the green financing policy in Cambodia, NBC has recognized that multi-stakeholder engagement is vital in developing an ecosystem for implementation. Thus, any single institution cannot develop and issue a green financing policy, and it requires an ecosystem in which multiple stakeholders work together. *"To achieve green financing, it requires an ecosystem such as the source of funding used in any projects. There is a need for criteria to define green. Some projects can be labelled as green, but it is not green due to a lack of defined criteria or taxonomy of green financing. To ensure that the projects are green, there is a need for clear definition so that they can issue green bonds or get green loans from banks"*, said a representative from the NBC. Engagement from all stakeholders is needed to create an ecosystem that develops criteria to ensure that activities are classified as green to successfully create and implement a green financing policy. Stakeholders should accept that this is a relatively new concept and set the standards at a doable level. There is a need for shared understanding, commitment and actions. It needs to be reiterated that a common interpretation requires awareness-raising among the concerned stakeholders due to its novelty in the ASEAN. There is also a fear that banks will loose profits when having to change to more sustainability practices and projects: therefore, it is important that all banks and investors are required through regulations or laws to apply sustainability impact requirements. This will also allow more access to external financing from ADB, WB and institutional investors.

There are three things that NBC is working on:

1. NBC acknowledges that capacity building is needed not only for NBC policymakers and implementers but also for other stakeholders working on developing and implementing green financing policy.
2. There is a need for evidence-based research to serve as a reference for developing regulations or guidelines related to green financing. The NBC is researching the exposure of the banking sector to climate-related risks.
3. It is imperative to follow the ASEAN taxonomy, issued at the end of 2021, to classify activities by involving all sectors.

Recommendation: As evidence-based research proves the benefits of implementing green financing, it should be used as a reference for developing regulations or guidelines related to green financing for Cambodia. This could be done by adopting recommendations to align with the ASEAN taxonomy, which will be issued by the end of 2021 to classify activities by involving all sectors.

Recommendation: In order to build its capacity for regulating and supervising green lending and financing, the NBC could rely on guidance and reports by the Network on Greening the Financial System³⁵ of which it is a member. One such guidance is that the MBC as bank supervisor gradually first makes clear what it requires banks to report on, then (e.g. after 1 or 2 years) imposes that banks report on what portion of their loans or financing is green or sustainable, then (after 1 or 2 years) issues regulation to develop the operation of sustainability policies and strategies (which could be based on the ABC principles), then after 1 or 2 years requires the implementation of those policies and principles.

6.2.2 Action Taken by Securities and Exchange Regulator of Cambodia (SERC)

SERC is at the studying stage of developing a green financing-related policy, such as green bonds, based on the ASEAN Taxonomy. Like NBC, SERC has not issued any requirements for securities issuers to follow any green financing guidelines yet.

However, the SERC notes that securities contribute to economic growth and significant employment as the sector attracts investors to the country. This influx of investors contributes to economic sustainability. Although environmental sustainability has not yet emerged as one of the agendas in the securities sector in Cambodia, it is crucial for job creation and fiscal revenue, according to SERC representatives at the interview. To be eligible for issuing securities products such as bonds or stocks, companies must show all required information before they are listed in the securities markets in Cambodia. SERC representatives, therefore, claim that the securities sector in Cambodia has contributed to sustainable development.

Companies are required to disclose the following essential information:

- financial reports
- capital
- governance structure
- business operations

³⁵ <https://www.ngfs.net/en>

- implementation of financial duties and corporate responsibilities.

However, from the SERC's viewpoint, green bond policies cannot be expeditiously developed because it is essential to ensure that the policy will be effective and contribute to development. *"It is still in the early stage where we are currently conducting studies. After we have conducted a rigorous study, we will know when we can start developing policies related to green bonds based on ASEAN"*, said a representative from SERC.

SERC and other stakeholders developing green financing policies need thorough research and understanding of the impacts of green bonds. The SERC representatives note a need for a third-party evaluation in other countries to ensure that the proposed projects are green. Unless green financing is defined, the investors can claim how green their projects are without taking any valid action. There are various commercial verifying and certification companies that assess whether a project or company is green when financed by a green bond, but these companies are not regulated. It would be important to coordinate for projects in Cambodia with other ministries and stakeholders, how to verify green or sustainable projects and companies.

The SERC representatives view that to mainstream green financing policies, there is a need for awareness-raising and capacity building for professionals, implementors and investors, primarily focusing on the definitions and criteria for green financing. Evidence-based research is required to develop a green financing policy. It needs to be pointed out that there is a vicious circle between supply and demand. There is little supply of green or sustainable projects or companies because there are no rules or requirements to implement sustainable policies and financiers are not requiring them. But financiers (banks and investors) are not demanding sustainability to be incorporated in projects and companies because there are no rules or requirements and no supply of such projects and companies. Both supply and demand have to be given a push by basic binding requirements, voluntary measures are not working, also not in Western countries.

Recommendation: Awareness-raising and capacity building for professionals in the financial sector, implementors and investors, should be organized by focusing on the definitions and criteria for green financing, as well as for implementing first ESG risk management tools into existing risk assessment methodologies, and secondly ESG impact management tools so as to promote not only do-no harm but also financing of project and companies that align with the climate goals of the Paris agreement and the SDGs.

An important issue is how companies and projects, which need bank loans or investments, are reporting about their green or sustainable policies and implementation, the ESG risks that can affect their profits and loan repayments, impacts on people and planet, and whether they are undertaking activities according to the taxonomy criteria. At international level, discussions are ongoing to establish some basic standards for reporting by non-financial and financial companies.

Recommendation: Regulating reporting by listed companies (which are few in Cambodia) can be done by the Security and Exchange Commission (SERC). Reporting regulation by all companies could also be done by the SEC, as was the case in India (by SEBI).

6.2.3 Inputs collected from the consultative validation workshop

The ADB considers the study on the green financing in Cambodia importance. The ABC received support from NBC and MoE and technical assistance from development partners/agencies such as the IFC, the ASEAN Bankers' Association, and the Mongolian government.³⁶ During the endorsement of the CSFP, there were more than 50 Cambodian banks that adopted the principles. The committee has a roadmap for implementing CSFP under the NBC-MoE-ABC umbrella, focusing on capacity-building, as it would help banks and financial institutions fully implement the principles. Each bank and financial institution is required to attend comprehensive training. Currently, the ABC is working with ASEAN Bankers' Association to develop a framework and procedure for green financing implementation. It is essential to develop a green financing framework and definition, requiring participation from all stakeholders. In addition, ABC has been a member of the SBFN for three years. The SBFN has provided technical assistance, and via the SBN assessment, Cambodia has seen good progress on sustainable/green financing principles.³⁹ The ABC has also been supported by the USAID, IFC and WCS. The USAID's Green Invest Asia provided capacity building to banks on the implantation of the CSFP and the establishment of social and environmental risk management system. On the 8th April 2020, the NBC also organized the ESG risk management training program which is helpful to bankers which also shaped the implementation of the CSFP. The ABC is looking forward to the development of the definition of green lending for Cambodia for supporting green lending projects. The ABC views that the CSOs is also an actor to monitor the implementation of the green financing. Regulators have played an important role in supporting the implementation. In addition, investors are also an important actor.

The Cambodian Agricultural and Rural Development Bank (ARDB) is starting to implement the government's green financing, within the ARDB, based on minimum requirements by for promoting the environment. ARDB is initiating financial instruments by looking at the existing funding, such as the Green Climate Fund (GCF), which is channelled through the National Council for Sustainable Development (NCDF) at the MoE, and a secretariat to the government. Several projects are being implemented in Cambodia through GCF funding. To get direct funds from the GCF, the ARDB is looking for accredited partners because its mandate does not allow for direct lending. The ARDB is working with FAO and Agence France Development (AFD) to develop the concepts of sustainable development.

From the perspective of the MEF, internal loans must respect the government's Public Debt Management Strategy 2019-2023. Loan size, interest and priority sectors must be given due consideration. Therefore, the MEF only considers concessional loans and/or loans used in the priority sectors. Loans can be only used with transparency and efficiency and on projects which promote sustainable growth. The government has signed an agreement with the ADB on sustainable value chain projects with a loan size of 141 million dollars, co-funded by the ADB and GCE, with contribution from the government and beneficiaries. The Ministry of Agriculture, Fishery and Forestry (MAFF) in the implementer, participated by Ministry of Rural Development and the Ministry of Water Resources Management. To get funding from the GCF, the MEF is also reviewing accredited entities. The ARDG has the potential to get the funding and lend to smaller projects.

³⁶ Comments from the NBC at the consultative workshop

Implementing green financing policies faces some challenges. So far, green financing lacks any clear definition or criteria, although several projects claim to be green. Green financing could be part of sustainable financing. However, due to a lack of guidelines, definitions and criteria, it is difficult to identify whether projects are green or not precisely, or have negative social effects that can undermine the positive environmental impacts. Therefore, stakeholders must understand green financing based on clear definitions, principles and criteria. In general, large projects have been through EIA. Based on the validation workshop, first, green financing is critical to ensure environmental and social sustainability, and the private sector must be encouraged to participate. Second, GCF is a among major agencies that Cambodia could source for green finance, communication barriers may reduce the potential to obtain funding from the GCF as it requires an understanding of the criteria from the GCF to get the green funds. Third, due consideration should be given to issues like technological risks, and the risks associated with projects like solar farms should be studied. Besides technological risks, contractual reinforcement should also be considered. Fourth, clear responsibilities must be given to implementors to promote green financing. For example, banks much carefully consider giving loans based on the criteria.

Participation from all stakeholders, including the government, the private sector and the CSOs, is required to develop and implement a green financing policy. Additionally, commitments, including financial commitments, are needed to implement green financing. Learning from other countries' experiences should help Cambodia develop and implement a viable green policy. Regular monitoring and evaluation should be done can ensure that Cambodia is on the right path. Finally, policymakers should be encouraged to reduce risks, and financial institutions should be encouraged to implement and provide clear reports. Currently, only a few financial institutions, one of which is ACLEDA Bank, have reported on sustainability performance indicators.

6.2.4 Inputs from the Ministry of Economy and Finance

Developing green financing policy needs to examine the demand side. If there is no demand, it would not be practical. If there is a next follow up study, the methodology should include the analysis of the demand side, where the demand for green financing could be a potential for the green financing in Cambodia. Also, if there are investments on green energy, are there any demands? Sustainability has been taken into consideration for quite long in Cambodia as large projects in Cambodia required EIAs. If there were no EIAs, donors would not fund the projects.

Green financing is cross-cutting issue; therefore, the creation of an overarching framework for it would provide a basis for green financing policy development an implementation. Also, there is a need for a clear and precise definition of green projects. If to create a green financing master plan, there is a need for identifying leading and coordinating agencies. To implement green financing policies, there is a need for human resource in the areas of project management, project implementation, monitoring and implementation, in accordance with the standards and rules.

7) What benchmark should Cambodia take to move forward getting green finance?

Today there now seems to be a global consensus around the necessity to integrate environmental, social and governance (ESG) considerations into financing and investment decisions to respond adequately to the COVID-19 crisis and the climate emergency. There is growing call for not only integrate ESG risks for the financial sector itself, but also avoid and contribute to ESG impacts for people and planet. A strong and responsible financial sector is needed to efficiently allocate investment funds, find risk-sharing solutions, and provide adequate and accessible financial services for all.

Standard-setting organizations, regulators and civil society organizations also have an essential role in preventing greenwashing and ensuring that products and services labelled as sustainable have truly positive environmental and social impacts. People living in poverty disproportionately carry the burden of the detrimental consequences of the loans and investments by financial institutions. Until now, it has been primarily civil society organizations that report on these issues and hold companies and financial institutions accountable for this. Information provided by CSOs and affected communities need to be incorporated in ESG reporting systems.

To assist the civil society organization in holding companies and financial institutions accountable for the ESG standards, **Fair Finance Guide International (FFGI) Methodology** was created. The FFGI Methodology was initially created as a mechanism to call Dutch banks to account for financing companies and programs in developing countries that engaged in behaviours that violated ESG principles and human rights. Financial institutions could rethink their role in society by developing clear and ambitious policies on environmental, social and governance principles. This could be done through benchmarking green financing regulations and policies from the international standards as well as national laws, policies and plans to achieve the SDGs and Paris goals.

Recommendation: financial institutions should rethink their role in society by developing clear and ambitious environmental, social and governance principles. This could be done by benchmarking the international or regional standards' green financing regulations and policies such ASEAN Taxonomy for Sustainable Financing. Also, by improving their implementation of ESG, climate and SDG principles and strategies, they are in the long term be able to have more access to international financing to be used for national loans and investments.

Task Force on Climate-related Financial Disclosures (TCFD) (also called Task Force). Recognizing that climate-related financial risk reporting is still evolving, the Task Force's recommendations provide a foundation to improve the ability of investors and other key stakeholders to assess and price climate-related risks for financiers and opportunities appropriately.⁴⁰ The Task Force's recommendations aim to be ambitious and practical for near-term adoption. The Task Force expects to advance the quality of mainstream financial disclosures related to the potential effects of climate change on financiers and companies today and in the future and to increase investor engagement with boards and senior management on climate-related issues.⁴¹ The core elements of recommended climate-related financial disclosures are:

- (i)-**Governance:** The organization’s governance around climate-related risks and opportunities,
- (ii)-**Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning,
- (iii)-**Risk Management:** The processes used by the organization to identify, assess, and manage climate-related risks,
- (vi)- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Note that TCFD reporting requirements should be gradually improved by ESG impact assessments and obligations to apply ESG impact assessments as well as financing projects and companies that ‘substantially contribute’ to positive climate, environmental, social and governance impacts.

See for recommendations to banks: FFA’s Dystopian future: how to integrate climate and sustainability risks in existing risk assessments, and beyond.

8) Conclusion and Recommendations

8.1 Conclusion

In this study, green financing is on the global agenda that several vital stakeholders have discussed. In contrast, promisingly, green and social finance from private sources has proliferated in recent years to become a contributor to sustainable finance. This will require all concerned vital stakeholders to promote sustainable green finance to mitigate adverse impacts to the environment and societies.

Endorsing environmental protection and natural resource management is an inter-disciplinary task requiring the engagement of key stakeholders, including state actors and private sectors and citizens. The provision of loans is a crucial way to promote and expand development or private investment, which is often observed to cause environmental and social harm.

Banking and financial institutions play an important role in Cambodia and significantly ensure a good investment climate for large development or investment projects. The investment projects continue providing employment opportunities, income and developmental progress of Cambodia. In Cambodia, the provision of loans or credits of banking and financial institutions has not yet implemented conditional loans on environmental and social impact assessments for potentially risky projects. In contrast to several international banks, such as the Asian Development Bank, the World Bank, and the International Finance Corporation, these banks have developed strong environmental, forest, resettlement, indigenous, and regional security policies.

The absence of environmental and social safeguards in Cambodia's banking and financial sector is a significant concern, as credit from this sector has broadly contributed to many developments or investment projects, some of which have damaged natural resources and the environment. Also,

private financing is needed for achieving SDGs and climate goals in Cambodia. This challenge is due to the confusion in the legal framework, especially in the banking and financial sectors, where there is no formal guidance on the impact of loan or credit operations on environmental and social resources in the region or financing from banking and financial institutions.

8.2 Key Recommendations

Recommendation #1: Awareness raising and capacity building for professionals, implementors and investors, should be organized by NBC to bankers focusing on the definitions and criteria for green financing.

Recommendation #2: Financial institutions should rethink their role in society by developing clear and ambitious environmental, social and governance policies. This could be done by benchmarking the green financing regulations and policies of the international standards.

Recommendation #3: To motivate members of ABC to move forward in implementing the Cambodia Sustainable Financing Principles (CSFP), the regulators should consider rewarding any bank that fully complies with the CSFP. This could be done through tax exemption for banks that have gone through performance evaluation or assessment against the green finance indicators to be developed and assessed by NBC and NCSF. Or providing the banks with better access to finance themselves, from the central bank.

Recommendation #4: Evidence-based research should be conducted by NBC to be used as a reference for the development of regulations or guidelines related to green and sustainable financing for Cambodia. First is the obligation to avoid harmful activities. Secondly, financing needs to have significant positive contributions: This could be done by adopting the ASEAN taxonomy, which was issued by the end of 2021 to classify activities involving all sectors. At the same time, banks should be required to gradually increase the number loans that align with the taxonomy.

Recommendation #5: As policymakers and implementers are a novice to green financing concepts and practices, capacity building on how to develop green financing policy should be provided in data collection, assessment and evaluation for the development, implementation, monitoring and evaluation of the project. The capacity of supervisors should also be increased, including through capacity building from other central banks (e.g. through the Network on Greening the Financial Sector).

Recommendation #6: In order to develop green financing policies, there is a need for clear definition of green financing projects and identifying key stakeholders. As the green financing is cross-cutting issue, Cambodia should create an overarching framework for the green financing. In the green financing master plan, leading agencies and coordinating agencies should be clearly identified for and effective management and coordination.

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