THE COMPLIANCE OF ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT (ESIA) IN FINANCE AND BANKING SECTOR IN CAMBODIA

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Abbreviation

ibid	in the same place
ABC	Association of Bank in Cambodia
ADB	Asia Development Bank
CBC	Credit Bureau Cambodia
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CSFI	Cambodian Sustainable Finance Initiative
CSR	Corporate Social Responsibility
EHS	Environment, Health and Safety
ESMS	Environmental and Social Management System
ESS	Environmental and Social Standard
IFC	International Finance Corporation
NBC	National Bank of Cambodia
PS	Performance Standard
SPS	Safeguard Policy Statement
WB	World Bank

Executive Summary

Introduction: The banking and financial institutions are sources of essential capital for investments. From an economic point of view, lending to development project owners is a positive effect, but some concerns and risks to the environmental and social resources of the lending project are different aspects that need to be seriously considered. Obviously, the damage to resources by the activities of the development project is also an indirect involvement of the lending banking and financial institutions. Generally, before a loan is approved, the Bank evaluates and reports the financing of the project owner (with particular consideration for the ability or capability to afford the repayment) without evaluating or regarding the impact on the project obtaining such a loan, may entail a serious risk to the environment around the area where the projects are located. This lack of full demand for environmental and social impacts not only harms resources, but also causes the project itself to fail and be unable to repay banking and financial institutions.

Study objectives: This study is to study and understand the challenges and best practices of the banks in promoting the application of the requirements of Environmental Impact Assessment (Sub-Decree No. 72) to its clients to be responsible for performing environmental-social governance in a sustainable manner; to study and understand the policy gaps in the banking and environmental sectors which promote good environmental and social governance, and propose some policy and implementation options for the Ministry of Environment and for the banking sector to ensure good governance in a sustainable manner. Moreover the study also aims to compile a case study on the best practice of a selected bank and its clients' performance in improving environmental and social governance in Cambodia, especially in the fields of agribusiness and hydropower; and to disseminate and present to stakeholders, including the Ministry of Environment, the National Bank of Cambodia, the Association of Banks in Cambodia, recommendations for policies to promote consistent and accountable investment in the financial sector.

Study methodologies: This study uses a qualitative approach for collecting information and data in order to analyze and understand the research aim. Data collection included (A) key informant interviews (National Bank of Cambodia, Association of Banks in Cambodia, Ministry of Environment), (B) documentation of case studies on best practices of banks, and (C) consultative workshop with other key relevant stakeholders.

Study results and discussions: For environmental sector, there are key legislatives such as the 1996 Law on Natural Resources Management and Environmental Protection, 1999 Sub-Decree no. 72 on Environmental Impact Assessment Process, 2009 Prokas no. 376 on General Guideline for Preparing the Initial Environmental Impact Assessment, and 2020 Prokas no. 021 on Classification of Development Projects for Environmental Impact Assessment. There is no legal basis or provision for the inclusion or integration of this assessment in the policies and practices of banking and financial institutions in Cambodia. This shortcoming is a testament to the current need to prepare, consider, and begin to take into account the social and environmental impacts possibly resulting from loan or lending to development projects.

On the other hand, for finance and banking sector, there are also some important legislatives such as (1) *Law on Financial Lease*, promulgated (2009); (2) *Law on Anti-Money Laundering and Terrorism Financing* (2020); (3) *Law on Commercial Enterprises* (2005), (4) *Law on Negotiable Instruments and Payment Transactions* (2005); (5) *Law on Foreign Exchange* (1997); (6) Law on Organization and Functioning of the National Bank of Cambodia (1996); (7) Law on Amendment of Articles 14 and 57 of the Law on Organization and Functioning of the National Bank of Cambodia (2006); (8) Law on banking and Financial Institutions (1999). There is no legal basis or provision institutionalizing environmental and social protection that is potentially affected by the financial and banking operations in Cambodia, except the Code of Banking Practice (2015) which guides the Association of Banks in Cambodia to emphasize the criteria in approving credit to clients based on the Sustainable Finance Principles. Its clause 12.1 recommends that the bank conduct diligent and prudent operations in assessing customers' ability to repay credit facility. Five criteria is set out to check information and data to study the ability of credit repayment. The code, as well as the criteria for pre-lending assessment, does not emphasize or take into account environmental and social issues that may affect the client's business, and that these impacts may affect and reduce the client's ability to repay the loan.

It has been so far practiced that project owners or clients who have received loans or credits from international banks (such as the Asian Development Bank, the World Bank, or the International Finance Corporation) have diligently studied and prepared environmental and social impact assessments in order to meet the absolute need to fulfill the rightful conditions of those banks. The needs of these banks reflect the recognition of concerns about environmental-social issues and long-term sustainable development that are becoming active topics in the context of development. The provision of loans or credits in any amount enables clients or project owners to develop a number of large-scaled projects that could pose significant risks and impact on the environmental and social resources of the communities in which they are located. Due to financing that provides clients with sufficient capacity to clear, build, utilize resources, and operate their projects on a large scale, which may cause disruption or conflict with resources and livelihood activities of people in and around the project areas.

Financial and banking institutions in Cambodia have not exercised the requirements of environmental and social impact assessment in their loaning. There have been some challenges, for instance low motivation, high market competition, and limited awareness of the benefits of environmental and social protection among banking and financial operators and the public. Immediate fulfillment of such obligations may be an additional constraint or complication for both operators and clients wishing to seek loans from banking and financial institutions.

Moreover, the results of the study and consultation with stakeholders at the meeting on November 4, 2020 confirms that the finance and banking sector in Cambodia has not yet implemented the obligations of environmental and social impact assessment as the conditions for approving loans. The best practice of this assessment process in the finance and banking sector was not available during this study period, as the Ministry of Environment as well as the National Bank of Cambodia has not yet identified a legal requirement for the current banking and financial institutions doing businesses in Cambodia.

In the volatile context, bank financing has boosted the momentum of industrialization, urbanization, agriculture, and tourism through related development projects. Those momenta have led to changes in land use and human settlements, resulting in declining water and land quality, degradation and loss of biodiversity, encroachment on forests, increased pollution, and the negative impact on human health. It is imperative that banking institutions in Cambodia should begin to understand the consequences of loans or credits in reflection on damage to the quality of environment and social resources in order to reduce the risks that may affect their clients and development projects.

Conclusion: 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 a number of international banks, such as the Asian Development Bank, the World Bank, and the International Finance Corporation, these banks have developed strong safeguard policies on environment, forest, resettlement, indigenous, conflicted region or cultural-physical characteristics, that require the project owners to receive financing to avoid or minimize the risks or impacts on the resources. The lack of enforcement of environmental and social safeguards in the banking and financial sector in Cambodia is a major concern as credit from this sector has contributed extensively to many development or investment projects, some of which have resulted in damage or conflict with the local resources of the people.

The results of the study presented in this report show that the implementation of policies and work standards of the environmental and finance and banking sectors are still on two different ways, despite the banking and financial institutions, some have begun to gradually integrate awareness and practice of the obligation to contribute to sustainability and environmental and social responsibility. Responding to these shortcomings, the report identifies a number of solutions and measures that are needed to promote the joint implementation of environmental and social impact assessment needs for loans or credits that may pose a risk to environmental resources and socio-cultures.

Key recommendations:

- The Ministry of Environment and the Department of Environmental Impact Assessment should initiate or continue talks and discussions with the National Bank of Cambodia and the Association of Banks in Cambodia to find policy-forming solutions to promote the implementation of environmental and social requirements for bank's financing to the development projects, which exist in the appendix list of declaration no. 021 PRK.BST dated 03 February 2020 on the classification of environmental impact assessment for development projects. Based on the Memorandum of Understanding in 2019, the common policy, which is an example for the implementation of this Memorandum, includes *the joint-declaration on the requirements of the environmental and social impact assessment report for the banking sector in Cambodia*.
- As an entry point and to ease the work, National of Bank of Cambodia shall introduce a guiding policy (set as a requirement) to financial and banking institutions to apply or consider the policies and regulations in relation to environmental and social impact assessment (particularly the sub-decree no. 72, Prokas no. 021, 092, 116, 118, 119, 120 and 376) prior to their loan or credit approvals. In addition, the compliance report to these policies and regulations shall be regularly submitted to National Bank of Cambodia for archive and reference document and for future monitoring on their performance.
- Under the financial and technical assistance from its partners, the Ministry of Environment, with the Department of Environmental Impact Assessment, as a secretariat, shall develop additional guidelines on required procedures and operational standards for environmental and social impact assessment that can be implemented with the banks in Cambodia. This procedure and standard include a joint-declaration (between the Ministry of Environment and the National Bank of Cambodia) on the requirements for social and environmental impact assessments in the banking sector, and a handbook on legal standards regarding environmental-social impact assessment, and procedures for monitoring and approving the environmental-social impact assessment report, the process of public participation in the environmental-social impact assessment, the environmental monitoring, and some other administrative formalities (i.e. Rapid Assessment Matric for classifying environmentally risky loaning projects), which can facilitate the bank's performance in implementing environmental and social impact assessment requirements on clients' loans.
- For the purpose of long-term environmental and social protection, the Ministry of Environment and the National Bank of Cambodia should provide guidance through a number of policies and implementation tools (such as relevant technical guidelines) to the lending banks, requiring the borrowers to establish an Environmental and Social Management System (ESMS) for its institution to ensure that environmental or social issues or risks which may result from the use of bank loans will be avoided, reduced or compensated for irreparable damages.
- Banking and financial institutions need to continue to strengthen and operate more thoroughly before approving loans, emphasizing the procedures for evaluating and

controlling loans and monitoring loan operations at a later stage. In case the loan is not used for its proper purpose or used separately in the type of business prohibited by state law or deviating from the loan policy of the banking and financial institution or used for any activities that may cause environmental and social risks, it must be withdrawn immediately or the borrower is required to conduct the environmental and social impact assessment or to fulfill the legal obligations of any relevant ministry before the loan is renewed. In severe cases, the loan shall be terminated unconditionally.

The Compliance of Environmental and Social Impact Assessment (ESIA) in Finance and Banking in Cambodia

1. Introduction

The finance and banking sector has played an important role and is one of the mechanisms for promoting sustainable economic growth. Ensuring cash flow and currency circulation is a primary task in increasing economic activity for both the nation and the people who are earning a living. The increase in the presence and large number of banking and financial institutions in Cambodia is a clear testament to the growth of economic activity, including the rise in investment projects or development projects proposed in compliance with the Development Policy of the Royal Government of Cambodia. These banking and financial institutions are a source of essential capital for investments. From an economic point of view, lending to development project owners is a positive effect, but some concerns and risks to the environmental and social resources of the lending project are different aspects that need to be seriously considered. According to local and international media reports, environmental and social issues from a number of major development projects have caused and impacted natural and community resources. These affecting situations have provoked hostilities between local people and development projects. Obviously, the damage to resources by the activities of the development project is also an indirect involvement of the lending banking and financial institutions. Generally, before a loan is approved, the Bank evaluates and reports the financing of the project owner (with particular consideration for the ability or capability to afford the repayment) without evaluating or regarding the impact on the project obtaining such a loan, may entail a serious risk to the environment around the area where the projects are located. This lack of full demand for environmental and social impacts not only harms resources, but also causes the project itself to fail and be unable to repay banking and financial institutions.

In order to protect the future for Cambodia, the Association of Banks in Cambodia set a sustainable financial policy in March 2019. This principle demonstrates a strong commitment to prioritizing the protection of the environment, communities, and cultural heritage through environmental impact assessment, management and mitigation of risks or adverse effects that may result from customers' activities, standards and practices. It is also a specific model of example and starting point for thinking about the protection of natural and social resources for projects that receive loans from banking and financial institutions and may pose a serious risk.

As the Environmental Code has not yet been adopted, the requirements for the Environmental Impact Assessment function fall under Sub-Decree No. 72 on Environmental Impact Assessment Process (1999) and Declaration No. 376 on General Guideline for Developing Initial and Full Environmental Impact Assessment Reports (2009) of the Ministry of Environment. Consideration of environmental protection and the need for environmental and social impact assessments in the banking and financial sector are topics that should be necessarily discussed and addressed to reduce environmental and social risks from development projects or investment projects financed by banking and financial institutions in Cambodia.

The Fair Finance Cambodia, initiated and led by Oxfam, which includes certain members such as the NGO Forum on Cambodia, Cooperation Committee for Cambodia (CCC), Action Aid International Cambodia, Oxfam, Transparency International (TI), and SILAKA, will work together to implement strategies to achieve this protection of environmental-social resources and economic sustainability. In order to achieve this will, a study compiling the Bank's challenges and interests in the application of the rules and regulations of Ministry of Environment, such as Sub-Decree 72, needs to be conducted to extract the status and issues of the banking sector and environmental protection. The study will also provide information to stakeholders such as corporations, civil society organizations, and NGOs on policy options and operational standards for environmental impact assessments in the banking and financial sector in Cambodia.

2. Study Objectives

The main objectives of this study are as follows:

- To study and understand the challenges and best practices of the banks in promoting the application of the requirements of Environmental Impact Assessment (Sub-Decree No. 72) to its clients to be responsible for performing environmental-social governance in a sustainable manner;
- To study and understand the policy gaps in the banking and environmental sectors which promote good environmental and social governance, and propose some policy and implementation options for the Ministry of Environment and for the banking sector to ensure good governance in a sustainable manner;
- To compile a case study on the best practice of a selected bank and its clients' performance in improving environmental and social governance in Cambodia, especially in the fields of agribusiness and hydropower;
- To disseminate and present to stakeholders, including the Ministry of Environment, the National Bank of Cambodia, the Banking Association of Cambodia, recommendations for policies to promote consistent and accountable investment in the financial sector.

3. Research Methodology

This study uses a qualitative approach for collecting information and data in order to analyze and understand the research aim. The following methods are applied in the study:

3.1 Collection of primary data and information

(A) Interviews with Key Informants: The researchers requested separate interviews with key informants who could discuss, share and exchange ideas and experiences relevant to formulating policy on the banking sector, and especially related to social responsibility and environmental protection obligations, or environmental impact assessment requirements for contracts or loans with banks. The interviewed organizations or units include:

- The Department of Environmental Impact Assessment of the Ministry of Environment to find out about the current legal framework and its implementation of the environmental impact assessment process, and to understand the feasibility of making the requirements for environmental impact assessment known as a condition for large-scale development projects.
- The National Bank of Cambodia (NBC) - It is the top governing body for banking systems and operations in Cambodia to understand the goals and working approaches set by the National Bank of Cambodia to protect environmental and social resources and ensure there is no exploitation or destruction to the socio-environmental resources in finance and banking sector. The interviews with key informants from this organization helped shed light on awareness of policy-legal shortcomings and challenges in the Bank's operations which could pose a risk to the value of the social and environmental resources being exploited by the investment or development projects funded by banks. The author conducted a face-to-face interview with the Deputy Director-General of Banking Supervision and the Director of the Supervision Department II of the National Bank of Cambodia on October 16, 2020.
- The Association of Banks in Cambodia (ABC) to find out how to make members, staff and clients who are lenders become aware of the requirements of environmental

impact assessment and environmental and social responsibility, and to discuss the starting point for considering environmental protection and its impact on the environment and the surrounding community in the Bank's operations and loan processes.

(B) Preparation of a case study on bank's best practices: This case study demonstrates the bank's commitment and approach to taking into account the impact of banking and financial operations or on working with clients and lenders for the reduction and management of risks to the environment and community.

(C) Organizing consultative workshops with various stakeholders: The representatives from Ministry of Environment, the National Bank of Cambodia, the Association of Banks in Cambodia, World Bank, Asian Development Bank, Ministry of Economy and Finance, Cambodia Chamber of Commerce, Preak Leab National Agricultural Institute, Cambodia Institute of Technology, Royal Academy of Cambodia, Royal Agricultural University, Royal University of Phnom Penh, and civil society organizations were invited to participate in the dissemination, sharing of the results, and collection of the additional input and feedback on this study report on 04 November 2020 at The Cambodiana Hotel.

(D) Researchers analyzed the collected data and information to prepare reports focusing primarily on key findings and recommendations in order to promote better accountability for banks and business operations with clients or lenders, and to integrate environmental protection and resource governance standards into policies, legal frameworks and their practical implementation.

3.2 Collection of Secondary Data and Information

For the collection of secondary data or information, the researchers examined the existing documents, reports, or intellectual resources about policies, legal frameworks, and practices about environmental impact assessment, banking and financial sector, environmental-social responsibility, and many other experiences that can be collected. The literature review compiled documents of previous researches and current studies or project results implemented in Cambodia. These sources of information, data, and documents are available at libraries, universities, government institutions, non-governmental organizations, and other related entities. In addition, the researchers searched for documents from the websites of major banking institutions, such as the ones of the National Bank of Cambodia, the Association of Banks in Cambodia, and those of some private banks. Moreover, the other documents such as books, scientific research articles, theses, and other reports related to the subject of this study were also used for consolidating this report.

3.3 Limitations of the Study

- Association of Banks in Cambodia could not manage to provide the interview with the author since their schedule was tight during the study[1].
- The author could not be allowed to meet and interview the officials from Department of Environmental Impact Assessment because the Ministry of Environment did not respond to the requesting letter for the interview.

[1] This is referred to the ABC's letter no. 126/20 sor.thor.kor date on 07 October 2020 in responding to the requesting letter from the NGO Forum on Cambodia for the interview appointment, dated on 30 September 2020.

- For consultative workshop on 04 November 2020, key stakeholders were invited one week prior[2] to the meeting date but there were no representatives from Ministry of Environment and Association of Banks in Cambodia in the workshop.
- After consultative workshop on 04 December 2020, a final draft of the study report was sent to ABC and MoE for final feedback and comment. However, there is neither no response nor feedback[3].
- Because the compliance of environmental and social impact assessment in finance and banking sector in Cambodia are not or very less existent (mostly they exercise the corporate social responsibility – CSR), the documentation of the best practices of such impact assessment could not be made available in this study.
- For next study, the interested researchers shall take into focus on what financial and banking institutions can do to start institutionalizing environmental concerns in their operations.

4. Research Results

4.1 Investment Trend in Cambodia

The amount of committed investments in Cambodia grew significantly since 2012, a 24% increasing from US $2.9 billion in 2012 to US $3.6 billion in 2016 and continue to increase 75 percent in 2017[4]. In 2018 investment has slightly increased approximately 2%; and in 2019 investment increased remarkably by 45 percent compared to 2018. Over the five-year period, invested capital by local investors accounted for approximately 35% of total investment. The majority of committed investments were in the industrial and infrastructure sectors which together accounted for 53% of total investments in the last five years follow by tourism sector 41% and agriculture sector 6%[5].

As of 2019, the level of investment was about US $9.4 billion, and foreign direct investment also increased, with China having the largest investment with 39.55%. The British Virgin Islands (BVI) accounted for 4.93%, Japan for 3.18%, followed by Thailand, Vietnam, Singapore, the United Kingdom, the Republic of Korea, and a smaller proportion than 1 percent. Of the US $9.4 billion invested, China has invested US $2.75 billion, Hong Kong has US $912.55 Million and Japan has US $298.84 million.

Of the cumulative FDI (Foreign Direct Investment) approved in the period of 1994-2019[6], the largest share was from China (21.81 percent), which in the early years was the source of extensive investment in the field of infrastructure, resource development including rubber, and tourism. China is followed by Korea at 6.16 percent and UK at 5.01 percent. The other major sources are Malaysia (3.59 percent), Japan (3.13 percent), Hong Kong (3.05 percent), Taiwan (1.77 percent), Vietnam (2.31 percent), Singapore (1.64 percent) and Thailand (1.54 percent), whose investment comes mainly from garment industry companies.

Although Cambodia welcomes all domestic and foreign investment, some investment activities are prohibited as they can pose many risks and consequences now and in the future. A list of prohibited projects for investment in Cambodia is set out in Section 1 of Annex 1 of Sub-

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[2] Letters from The NGO Forum on Cambodia dated on 26 October 2020 requesting Ministry of Environment and Association of Banks in Cambodia to assign representatives to participate in the consultative workshop were sent and received. Ministry of Environment received the letter on 28 October 2020.

[3] Letters from The NGO Forum on Cambodia dated on 12 November 2020 requesting Ministry of Environment (MoE) and Association of Banks in Cambodia (ABC) for final feedbacks on the drafted report were sent and received by both on 13 November 2020. Still there were no official comments on the report till its finalization.

[4] Source: http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-enviroment/investment-trend.html retrieved on 23 October 2020.

[5] Ibid.

[6] Source: http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-enviroment/investment-trend.html retrieved on 23 October 2020.

Decree 111 on the Enforcement of the Law Amending the Cambodian Investment Law[7]. The list of investment activities prohibits both local and foreign companies as defined below:

- Production/processing of psychotropic substances and narcotic substances;
- Production of poisonious chemicals, agricultural pesticide/insecticide and other goods by using chemical substances, prohibited by international regulations or the World Health Organization, that affected the public health and environment;
- Processing and production of electricity power by using any waste imported from a foreign country;
- Forestry exploitation business prohibited by Forestry Law;
- Investment activities prohibited by law

4.2 Business Overview in Finance and Banking Sector in Cambodia

As of 2019[8], the banking system in Cambodia includes (A) 47 commercial banks (17 locally incorporated, 17 subsidiaries, 13 foreign branches), (B) 15 specialized banks, (C) 7 microfinance deposit taking institutions, (D) 76 microfinance institutions, (E) 245 rural credit institutions, (F) 15 leasing companies, (G) 4 third-party processors, (H) 21 payment service institutions, (I) 1 credit reporting system service provider, (J) 6 representative offices of foreign banks, and (K) 2,913 foreign exchange dealers.

The banking sector has continued to grow impressively. The single banking institutions accounted for 83.2% of the total assets of the banking system in Cambodia. Total assets of the banking institutions increased by 21.5% to 172.1 trillion riels (US $42.2 billion) with 103.6 trillion riels (US $25.4 billion) in customer deposits. The shareholders' fund is 32.9 trillion riels (US $8.1 billion), and the lending fund is 4.5 trillion riels (US $1.1 billion)[9]. Overall, the banking sector keep improving remarkably, reflected by an increase in total assets of 22.8 percent, equivalent to KHR 171 trillion (US$41.8 billion)[10]. In Cambodia, there are 2,450 branches and headquarters, 2,520 ATMs, 7,587,048 deposit accounts and 3,066,880 loan accounts[11]. Moreover, banks and financial institutions have diversified their financial services more actively in order to enable their clients to use cards instead of cash, money transfers and electronic payments. However, Cambodia has been regarded as "predominantly cash economy", and majority of Cambodians enjoy the financial access but are not able to save[12].

Credit, the most importance source of capital to spur the economic activities grew by 23.8 percent, equivalent to KHR 100.5 trillion (US$ 24.5 billion) and was provided to major economic sectors, including retail trade 16 percent, wholesale trade 11 percent, mortgage 10 percent, construction 10 percent, agriculture, forestry and fishery 9 percent, etc.[13]

According to the data in the annual report (2018)[14] of CBC, as of 2018, a total of more than 3 million people in Cambodia are currently receiving loans or credits from financial institutions and a total amount of US $20.854 million. Of those people, 57% are women who own those loans or credits. 17% of lenders have relationships with more than one financial institution.

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[7] Ibid.

[8] The National Bank of Cambodia (2019). *Financial Stability Review 2019*. Directorate General of Banking Supervision. Phnom Penh. Cambodia.

[9] Ibid, p. 2

[10] Which was supported by customer's deposits KHR 104 trillion (US$25.5 billion), capital KHR 20.4 trillion (US$5 billion) and borrowing funds of KHR 4.9 trillion (US$1.2 billion). Source: NBC (2019). *Annual Report 2019*. National Bank of Cambodia, Phnom Penh, Cambodia

[11] Ibid, p.15

[12] World Bank (2019). *Microfinance and Household Welfare. Cambodia Policy Note*. International Bank for Reconstruction and Development. Washington DC.

[13] NBC (2019). *Annual Report 2019*. National Bank of Cambodia, Phnom Penh, Cambodia (p.15-16)

[14] CBC (2018). *Annual Report 2018*. Credit Bureau Cambodia. Phnom Penh. Cambodia.

Table 1: The 2018 Credit Market Situation in Cambodia

Regions	Financial Institutions	Outstanding Balance	Active Borrowers
Tonle Sab Region	134	$ 4,586.73 Millions	1,003.34 thousands
Plain Region	150	$ 14,369.01 Millions	1,851.45 thousands
Plateau Region	113	$ 770.88 Millions	208.02 thousands
Costal Region	124	$ 1,127.09 Millions	218.39 thousands
Total	157	$ 20,854 Millions	3,281.19 thousands
Credits	U.S. Dollar	91 per cent	
	Khmer Riel	8 per cent	
	Thai Baht	1 per cent	
Types of Credits	Small Business	61 per cent	
	Personal Finance	15 per cent	
	Mortgage	14 per cent	
	Agricutural Loan	8 per cent	
	The Other Loans	2 per cent	

Source: CBC, 2018

Credit Bureau Cambodia (CBC) is a privately held company established in 2012 with the aim of strengthening credit information sharing and promoting transparency in order to reduce credit risks and lower interest rates.

CBC is a joint venture between the Association of Banks in Cambodia, the Cambodian Microfinance Association, ACLEDA Bank Plc., Union Commercial Bank Plc., and First Commercial Bank with a total investment of 51% and the other 49% of EQUFAX CAMBODIA HOLDING PTE LIMITED[15]. As of December 2018, CBC has 157 member institutions: banks, microfinance institutions, leasing companies, and rural credit institutions. CBC collects credit data of individuals throughout the country from member banking and financial institutions and shares this information and data back to them for the purpose of their related activities, such as credit history assessments (the borrowed amount, lending institutions, declared income, and customer details), etc. In 2018, all member institutions provided loans totaling US $20.85 billion to 3.82 million people[16].

4.3 Legal Framework of the Environmental and Finance-Banking Sectors in Cambodia

(A) Environmental Sector (Environmental Impact Assessment)

Law on Environmental Protection and Natural Resource Management, adopted and promulgated in 1996, clearly specifies the requirements for environmental impact assessments for public or private projects and for existing and ongoing activities (which have not yet been impacted) (Chapter 3). The Ministry of Environment is the only body in charge of monitoring and advising on environmental impact assessments.

Sub-decree no. 72 ANKR.BK on Environmental Impact Assessment Process, signed and entered into force in 1999 for the purpose of (a) determining the environmental impact assessment of private and public projects and activities, (b) defining the type and scope of the proposed action plan as well as existing and ongoing activities of both private and public entities,

[15] CBC (2018). *Annual Report 2018*. Credit Bureau Cambodia. Phnom Penh. Cambodia.
[16] CBC (2018). *Loan Situation in Cambodia Report 2018*. Credit Bureau Cambodia. Phnom Penh. Cambodia.

and (c) encouraging public participation in the environment impact assessment process. The sub-decree sets out the responsible institutions (Chapter 2), the environmental impact assessment requirements for the proposed project (Chapter 3), the procedures for the environmental impact assessment process for the proposed project (Chapter 4), procedures of environmental impact assessment process for existing activities (Chapter 5), conditions for project approval (Chapter 6), and provisions on penalties (Chapter 7).

Declaration no. 376 BRK.BST on General Guidelines for Preparing Initial and Full Environmental Impact Assessment Reports was introduced in 2009. The declaration aims to implement the general guidelines on the preparation of the initial and full environmental impact assessment report and summary table as attached in its appendix. Once again, it reminds us of the need for environmental impact assessments for private companies, state-owned enterprises, mixed state-owned enterprises, and for existing and ongoing activities. However, this declaration sets out the exceptions (not requiring environmental impact assessment) for any projects that are of particularity and urgency decided by the Royal Government of Cambodia (Article 2).

Declaration no. 021 BRK.BST on the Classification of Environmental Impact Assessments for Development Projects was promulgated in 2020. The declaration aims to facilitate and guide private and public development projects in implementing the process for environmental impact assessments efficiently. It classifies environmental impact assessments for development projects that may require (a) environmental protection contracts, (b) initial environmental-social impact assessment reports, and (c) full environmental-social impact assessment reports.

In addition to the legal standards mentioned above, the Ministry of Environment has also implemented the sub-decree[17] related to pollution and its control, and declaration on the introduction of model working conditions for projects such as infrastructure and tourism development projects; agro-industrial plantation; factory and handicraft projects; construction and river sand projects; stone and construction materials business project in 2018.

(B) Finance and Banking Sector

Law on foreign exchange, promulgated by a Royal Kram no. CS/RKM/0897/03 dated 22 August 1997, aims to apply to all currency transactions and, in general, all operations involving residents and non-residents in terms of: (a) trade settlements, (b) remittances, or (c) capital movements, including investments.

Law on negotiable instruments and payment transactions, promulgated by a Royal Kram no. NS/RKM/1005/030 dated 25 October 2005, governs the instruments that can be traded and settled transactions, including bank accounts and the operation of payment systems. A negotiable instrument refers to a written order or promise to pay a determinate sum of money, transferable by delivery, and where required, also with an endorsement. The negotiable instruments governed by this law include checks, bills of exchange and promissory notes.

Law on commercial enterprises, promulgated by a Royal Kram no. NS/RKM/0605/019 dated 19 June 2005, defines the forms of partnerships and companies carrying out business in the Kingdom of Cambodia. A partnership includes a general partnership and a limited partnership. A company includes a private limited company and a public limited company.

[17] Sub-decree no. 27 on water-pollution control (1999), Sub-decree no. 42 on air pollution control and noise disturbance (2000), Sub-decree no. 235 on the management of drainage system and wastewater treatment systems (2017). Sub-decree no. 118 on management of garbage and solid waste of downtowns (2015).

Law on anti-money laundering and terrorism financing, promulgated on 27 June 2020 by a Royal Kram no. NS/RKM/0620/021 dated 27 June 2020, aims to combat money laundering and terrorism financing by adopting measures to control, prevent, stop, suppress and eliminate them.

Declaration on minimum registered capital of banks and financial institutions (Prakas no. B7-017-117 dated 22 March 2016) aims to redefine the minimum registered capital for banking and financial institutions. Pursuant to the article 4 of this declaration, a commercial bank, which is incorporated as a local company or a subsidiary of foreign bank, shall have a minimum registered capital of KHR 300,000,000,000 (three hundred billion Riels). As for a commercial bank, which is incorporated as a branch of foreign bank whose parent bank is rated "investment grade" by an international independent rating agency, shall have a minimum registered capital of KHR 200, 000,000,000 (two hundred billion Riels) (Article 3, Paragraph 1). In particular, a specialized bank established under the guise of a local company shall have a minimum registered capital of 60,000,000,000 Riels (sixty billion Riels) (Article 5).

Law on financial lease, promulgated by a Royal Kram no. NS/RKM/0609/008 dated 20 June 2009, aims to determine the rights and duties of all parties involving in the financial lease operations and take actions to protect those rights. Its objective is to develop banking and financial system and enterprises in order to carry out equal, safe, effective and productive financial lease operations in accordance with the evolution of the economy of the Kingdom of Cambodia.

Code of Banking Practice (2015), introduced by the association of banks in Cambodia emphasizes the criteria for providing credit to customers. Its clause 12.1 recommends that the bank conduct diligent and prudent operations in assessing customers' ability to repay credit facility. Five criteria[18] is set out to check information and data to study the ability of credit repayment. The code, as well as the criteria for pre-lending assessment, does not emphasize or take into account environmental and social issues that may affect the client's business, and that these impacts may affect and reduce the client's ability to repay the loan.

The *Sustainable Finance Principles* of the Association of Banks in Cambodia[19] were officially announced on March 29, 2019 with the participation of 48 member banks. The principles have the following main objectives:

- Properly establish and implement environmental and social risk management;
- Sustainably develop and promote business opportunities;
- 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 above principles, the National Bank of Cambodia and the Banking Association of Cambodia signed a *joint Memorandum of Understanding*[20] with the Ministry of Environment 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

[18] 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.
[19] The National Bank of Cambodia (2019*). Financial Stability Review 2019*. Directorate General of Banking Supervision. Phnom Penh. Cambodia.
[20] Ibid, p.6

banking sector in Cambodia. This Memorandum of Understanding is a testament to the solidarity and contribution, responsibility and commitment to achieving the goals of equitable and sustainable development. The Memorandum of Understanding sets out key commitments:

- Collaborate and assist each other to build capacity and raise awareness of 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;
- Collaborate and assist each other technically in developing and implementing sustainable financial principles;
- Provide cooperation and coordination with relevant organizations or institutions to develop and implement sustainable financial policies.

4.4 Practices of Compliance on Environmental and Social Guidelines of the International Banks

In the last 30 years, the bilateral banks and funding agencies have developed and put in place the strategic regulations, policies, and strategies in identifying and integrating the environmental and social risks in their work in order to support the responsible economic development. The safeguard policies are the wider mechanism required by top management and such policies will help prioritizing the environmental and social issues in decision-making, and providing technical concepts and tools in assisting the development process, together promoting public participation and transparency in development.

4.4.1 World Bank (WB)

The World Bank will classify all projects (including projects involving Financial Intermediaries (FIs)) into one of four classifications: *High Risk*, *Substantial Risk*, *Moderate Risk* or *Low Risk*[21]*.* In determining the appropriate risk classification, the Bank will take into account relevant issues, such as the type, location, sensitivity, and scale of the project; the nature and magnitude of the potential environmental and social risks and impacts; and the capacity and commitment of the Borrower (including any other entity responsible for the implementation of the project) to manage the environmental and social risks and impacts in a manner consistent with the ESSs. Other areas of risk may also be relevant to the delivery of environmental and social mitigation measures and outcomes, depending on the specific project and the context in which it is being developed. These could include legal and institutional considerations; the nature of the mitigation and technology being proposed; governance structures and legislation; and considerations relating to stability, conflict or security.

World Bank will require Borrower to use different methods and tools[22] to carry out the environmental and social assessment and to document the results of such assessment, including the mitigation measures to be implemented[23]. 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)

[21] World Bank (2017). *The World Bank Environmental and Social Framework.* International Bank for Reconstruction and Development. Washington, DC

[22] Ibid, p. 23-24

[23] Ibid, p. 8

- (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 must be applied by Borrower to identify and assess the risks and impacts on environment and communities from any project financed by the World Bank. The World Bank believes that the application of these standards, by focusing on the identification and management of environmental and social risks, will support Borrowers in their goal to reduce poverty and increase prosperity in a sustainable manner for the benefit of the environment and their citizens. The standards will: (a) support Borrowers in achieving good international practice relating to environmental and social sustainability; (b) assist Borrowers in fulfilling their national and international environmental and social obligations; (c) enhance nondiscrimination, transparency, participation, accountability and governance; and (d) enhance the sustainable development outcomes of projects through ongoing stakeholder engagement[24]. The effective implementation of the following Environmental and Social Standards (ESSs) is just like a *license to execute the project* in the context of sustainable development. The ESSs are:

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

Environmental and Social Standard 1 (ESS1) applies to all projects for which Bank Investment Project Financing is sought. ESS1 establishes the importance of: (a) the Borrower's existing environmental and social framework in addressing the risks and impacts of the project; (b) an integrated environmental and social assessment to identify the risks and impacts of a project; (c) effective community engagement through disclosure of project-related information, consultation and effective feedback; and (d) management of environmental and social risks and impacts by the Borrower throughout the project life cycle. The World Bank requires that all environmental and social risks and impacts of the project be addressed as part of the environmental and social assessment conducted in accordance with ESS1. ESS2–10 set out the obligations of the Borrower in identifying and addressing environmental and social risks and impacts that may require particular attention. These Standards establish objectives and

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

requirements to avoid, minimize, reduce and mitigate risks and impacts, and where significant residual impacts remain, to compensate for or offset such impacts.

To identify the project's impacts, the Bank will classify all projects (including projects involving Financial Intermediaries (FIs)) into one of four classifications: *High Risk*, *Substantial Risk*, *Moderate Risk* or *Low Risk.* In determining the appropriate risk classification, the World Bank will take into account relevant issues, such as the type, location, sensitivity, and scale of the project; the nature and magnitude of the potential environmental and social risks and impacts; and the capacity and commitment of the Borrower (including any other entity responsible for the implementation of the project) to manage the environmental and social risks and impacts in a manner consistent with the ESSs. Other areas of risk may also be relevant to the delivery of environmental and social mitigation measures and outcomes, depending on the specific project and the context in which it is being developed. These could include legal and institutional considerations; the nature of the mitigation and technology being proposed; governance structures and legislation; and considerations relating to stability, conflict or security.

Besides, the World Bank has issued the Environmental, Health and Safety Guideline (EHS Guideline). This guideline is a technical reference which is general and specific, for instance good international industry. This guideline shows the general and specific level and executive measures for all sectors and for industry such as emissions, wastewater, waste management, energy efficiency, safety and welfare of the communities.

These policies and guidelines provide the banks themselves, funding agencies, borrower (government), civil society, private sector, consultants, and other stakeholders the guidance to implement these required polices/guidelines for project procedures, technical aspects for project planning and resolution mechanism, and the actual implementation in response to any impacts from the projects financed by the World Bank[25].

4.4.2 International Finance Corporation (IFC)

In 2006, IFC - a member of the World Bank group - adopted Performance Standards (PS) on Social and Environmental Sustainability for private sector companies that were in receipt of IFC funding (IFC, 2009[26]). In the beginning, the standards were considered to be aspirational guidelines, and were treated as an international benchmark for private sector projects. However, in the context where the IFC becomes a lender, they are no longer just a good practice benchmark but have become compliance standards and now operate as a risk management tool for IFC-funded projects. Increasingly, the IFC standards are also seen as providing a global benchmark.

4.4.3 Asian Development Bank (ADB)

The Safeguard Policy Statement (SPS) of the Asian Development Bank has been modified and approved officially in 2009 that aims to manage risks on environmental and social resources, resulting from the ADB-financed projects. The objectives of this SPS are (a) to avoid adverse impacts of projects on the environment and affected people where possible; (b) to minimize, mitigate, and/or compensate for adverse project impacts on the environment and affected people where avoidance is not possible; and (c) to support borrowers/clients in strengthening their safeguard systems and develop their capacity to manage the environmental and social risks[27]. There are three main environmental safeguard policies – (1) Policy on Involuntary Resettlement (1995), (2) Policy on Indigenous Peoples (1998), and (3) Environmental Policy (2002), which these policies are regularly updated. The updates of these policies are to (a) better articulate the

[25] World Bank. (2004). *Involuntary Resettlement Sourcebook. Planning and Implementation in Development Projects.* The World Bank.

[26] IFC. (2009). *IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information*: Report on the First Three Years of Application: International Finance Corporation.

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

safeguard policies to improve their clarity, coherence and consistency; (b) balance a front-loaded procedural approach with one also focused on results during implementation; (c) adapt policy implementation to an evolving range of lending products and innovative financing modalities; (d) work toward greater harmonization with safeguard practices across MFIs and tailor safeguard approaches to different clients with varying capacities; and (e) improve internal processes and resource allocation[28].

In pursuit of these policies' objectives, ADB adopts a set of specific safeguard requirements that Borrowers or Clients are required to meet in addressing environmental and social risks during the project preparation and implementation. These safeguard requirements include[29]:

- Safeguard Requirements 1: Environment
- Safeguard Requirements 2: Involuntary Resettlement
- Safeguard Requirements 3: Indigenous Peoples
- Safeguard Requirements 4: Special Requirements for Different Finance Modalities

ADB will not finance projects that do not comply with its safeguard policy statement, nor will it finance projects that do not comply with the host country's social and environmental laws and regulations, including those laws implementing host country obligations under international law[30]. In addition, ADB will not finance activities on the prohibited investment activities list.

Policy implementation: ADB will carry out project screening and categorization at the earliest stage of project preparation when sufficient information is available for this purpose. Screening and categorization is undertaken to (i) reflect the significance of potential impacts or risks that a project might present; (ii) identify the level of assessment and institutional resources required for the safeguard measures; and (iii) determine disclosure requirements.

Table 2: Environmental Categorization

▪ Category A. A proposed project is classified as category A if it is likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. These impacts may affect an area larger than the sites or facilities subject to physical works. An environmental impact assessment is required.
▪ Category B. A proposed project is classified as category B if its potential adverse environmental impacts are less adverse than those of category A projects. These impacts are site-specific, few if any of them are irreversible, and in most cases mitigation measures can be designed more readily than for category A projects. An initial environmental examination is required.
▪ Category C. A proposed project is classified as category C if is likely to have minimal or no adverse environmental impacts. No environmental assessment is required although environmental implications need to be reviewed.
▪ Category FI. A proposed project is classified as category FI, if it involves investment of ADB funds to or through a FI.

Source: ADB (2009)[31]

In addition, ADB also screens all projects to determine whether or not they involve involuntary resettlement. For project involving involuntary resettlement, a resettlement plan will be prepared that is commensurate with the extent and degree of the impacts. The degrees of

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[28] ADB (2009). *Safeguard Policies Statement, 2009.* Asian Development Bank. Manila. The Philippines
[29] (ibid, p. 28)
[30] (ibid, 2009)
[31] ADB (2009). *Safeguard Policies Statement, 2009.* Asian Development Bank. Manila. The Philippines

impacts shall be determined by (i) the scope of physical and economic displacement, and (ii) the vulnerability of the affected persons. Similarly, ADB will screen all projects to determine whether or not they potential impacts on indigenous peoples. For project with impacts on indigenous people, an indigenous people plan will be prepared. The plan's level of detail and comprehensiveness will be commensurate with the degrees of impacts. The degree of impacts is determined by evaluating (i) the magnitude of the impact on indigenous peoples' customary rights of use and access to land and natural resources, socioeconomic status; cultural and communal integrity; health, education, livelihood systems, and social security status; or indigenous knowledge; and (ii) the vulnerability of the affected indigenous peoples.

4.5 Finance and Banking Institutions in Cambodia

4.5.1 The National Bank of Cambodia (NBC)

Royal Kram no. NS/RKM/0196/27 dated 26 January 1996 promulgated the law on organization and functioning of the national bank of Cambodia and Royal Kram no.NS/RKM/ 1206/036 dated 29 December 2006 promulgated the law on amendment of articles 14 and 57 of the law on organization and functioning of the national bank of Cambodia. The following description and discussion are based on the provisions and statements in the above laws:

(A) Mission of the National Bank of Cambodia

The National Bank of Cambodia, also known as the “Central Bank”, is a commercial and industrial autonomous public institution. Its main mission is to set and lead monetary policy for the sake of maintaining price stability in order to contribute to the economic development within the political, economic and financial frameworks of the Kingdom of Cambodia. The Central Bank is a legal entity capable of (1) lending money, borrowing money from others and entering into various contracts, (2) suing and defending before the courts, (3) procuring, occupying and transferring movable and immovable properties for the purpose of doing its business. In addition, it has the right to issue declarations, regulations, circulars and other instructions to fulfill its mission and to implement the contents of this law. It regularly issues monetary policies (monetary, credit, interest, interest rates) and statistics relating to monetary quantities, fees, credits, balances, and exchange rates.

Through prudent monetary policy, inflation has been kept low at an average annual rate of less than 5%, which is appropriate for developing countries. However, in the context of a highly dollarized economy, the effectiveness of monetary policy implementation remains limited, while the National Bank of Cambodia does not have sufficient capacity to act as a final lender. At the same time, the National Bank of Cambodia is developing additional monetary policy tools to strengthen monetary policies through the issuance of tradable securities, the development of interbank and monetary markets, and the strengthening of the use of Riel, and so on.

Laws applicable to banking and financial institutions are as follows:

- Law on financial lease (2009);
- Law on anti-money laundering and terrorism financing (2020);
- Law on commercial enterprises (2005);
- Law on negotiable instruments and payment transactions (2005);
- Law on banking and financial institutions (1999);
- Law on foreign exchange (1997);
- Law on the amendment of articles 14 and 57 of the law on organization and functioning of the national bank of Cambodia (2006);
- Law on organization and functioning of the national bank of Cambodia (1996).

(B) General Functions and Duties of the National Bank of Cambodia

The general functions and duties of the Central Bank are as follows:

- To determine the monetary policy objectives in consultation with the Royal Government and within the framework of economic and financial policies of the Kingdom of Cambodia;
- To formulate, implement and monitor monetary and exchange policies aimed at the determined objectives;
- To conduct regular economic and monetary analyses, disseminate the results and propose measures to the Royal Government;
- To license or de-license the businesses of banking and financial institutions and other relevant establishments such as auditors and liquidators, as well as issuing regulations and monitoring these organizations;
- To oversee payment systems in the Kingdom of Cambodia, and to enhance interbank payments;
- To act the sole issuer of national currency of the Kingdom of Cambodia;
- To undertake and perform in the name of the Kingdom of Cambodia the transactions resulting from the engagement of the Kingdom of Cambodia with the public international organizations in the banking, credit and monetary spheres;
- To establish the balance of payments;
- To participate in the management of external debts and claims;
- To participate in the formation and supervision of the money and financial markets;
- To license or de-license the institutions involving the businesses of foreign exchange, furniture, precious coals and metals;
- To set exchange rates.

(C) Management of the Central Bank

The Central Bank is governed by the following structures:

(1) The governing body of the Central Bank is the Board of Directors, which is headed by a Governor. The Board consists of 7 members including the Governor, a deputy governor and other five members, one being a representative of the head of the Royal Government, one a representative of the Ministry of Economy and Finance, one representing a financial activity, one representing a higher education, and one a representative of Central Bank's staff. In their positions, the governor and deputy governor cannot be civil servants, advisers to public entities, members of the Royal Government and members of the National Assembly. The above conditions also apply to other members, except for the head of the Royal Government and the Ministry of Economy and Finance, as well as representatives of higher education, each of whom can retain the status of civil servant.

(2) The Board of Directors are responsible for (a) establishing the policies for the operations of the Central Bank, (b) issuing decisions, regulations, circulars and other directives to regulate the business of the Central Bank, (c) setting the internal rules and regulations, (d) designing the statute of staff, (e) establishing the subordinate departments of the Central Bank, (f) forming an auditing committee and (g) a staff training committee.

(3) The Governor serves as the chief executive officer of the Central Bank and be responsible to the Board of Directors for the implementation of its policies. S/he shall be responsible for the conduct of business of the Central Bank and have authority to act in all matters that are not, by this law and other relevant, specified for the Board.

(4) The deputy governor exercises such powers and carries out such duties as determined by the Governor. In the absence of the Governor, the deputy governor shall act as a Governor. The Governor and deputy governor are appointed, replaced and dismissed by a royal decree on the recommendation of the Royal Government. The other members of the Board are appointed, replaced and dismissed by a sub-decree. They are selected from a list of a list prepared by the

Governor with the names of three candidates for each post. The members of the Board are the persons of recognized experience or standing in economic or financial matters, and are at maximum sixty-five years of age. They are appointed for a period of 4 years and may be re-appointed for only one more term. As for the first Board of Directors, which is created under this law, except for the Governor, deputy governor and a member representing the Central Bank's staff, two of the members shall serve for 2 years from the date of appointment of the first Board. Members of the Board and their families must not be shareholder of any banking and financial institutions regulated by the Central Bank. A member of the Board shall cease to hold an office if s/he (a) is convicted of a criminal, administrative offence or a violation of economic or commercial law, (b) is determined by the Board to have violated the prohibition of the articles 15 and 16 of this law, (c) is absent for four consecutive meetings, except for illness or the case of force majeure recognized by the Board, (d) resign by a written notice, (e) is physically and mentally incapacitated from performing his/her duties, and (f) is determined to be bankrupt by the court. The Board's meeting shall be held at least once every two months.

Board members shall receive an attendance allowance the amount of which shall be fixed by the Board. The Governor and deputy governor shall receive base remuneration from the Central Bank in the same amount as that of the member of the Royal Government. No officer, employee, or member of the Central Bank shall:

- Receive any benefit related to commercial, financial, agricultural, industrial, or other business interest;
- Accept directions from these interests in respect of duties to be performed under the law;
- Put themselves in a position where their interest conflicts with their duties;
- Receive any gift or advantage for themselves or persons with whom they have family, business, or financial connections that diminishes their honesty in their conduct of duties.

Board members shall fully disclose to the Board their significant commercial, financial, agricultural, industrial, or other business interests with which they or members of their immediate family may have, directly or indirectly, at any time, and shall refrain from voting rights on any matter related thereto. However, they may be qualified to constitute a quorum in accordance with the internal procedures of the Board. Except when under the provisions of any law, or when required to do so by any court of law, officers, employees, or members of the Board of the Central Bank shall not disclose to any person any material information related to its confidentially professional affairs which they have acquired in the performance of their duties.

(D) Autonomy of the Central Bank

To accomplish its mission, the Central Bank shall be permanently empowered and shall have operating autonomy and shall submit reports of the implementation and results of its mission to the National Assembly and the Royal Government. The Governor of the Central Bank may address meetings of the Council of Ministers at the invitation of the Council of Ministers. The Minister or the Secretary of State of the Ministry of Economy and Finance may address meetings of the Board of Directors of the Central Bank at the invitation of the Board. The Governor or members of the Board shall appear before the National Assembly or standing committee thereof to explain the policies of the Central Bank or comment on proposed legislation, at the request of the National Assembly. At the end of each semester, the Central Bank shall deliver to the National Assembly and to the Royal Government:

- (1) An assessment in general terms of the economic and financial condition of the Kingdom of Cambodia and a description of, the monetary and exchange policies that the Central Bank proposes to follow during the next semester and for such longer period of time as the Central Bank may decide;

- (2) A review and assessment of the implementation of monetary and exchange policy during the period to which the last preceding semester statement relates. Despites the above report, Central Bank makes a report as required by the National Assembly and Government.

(E) Financial Relations with Public Entities

The Central Bank shall be solely responsible for granting or revoking licenses and supervision of banking and financial institutions and other organizations as provided in Article 7 of the law on the organization and functioning of the National Bank of Cambodia (1996 and its amendment in 2006). The Central Bank may:

- Issue such decisions, regulations and other directives, and take such other actions as it shall deem necessary in order to execute its powers and responsibilities under Title II of this law, though proper licensing and de-licensing thereof and supervisory standards and enforcement procedures;
- Appoint, at its discretion, its officers or any other qualified persons to regularly inspect any banking or financial institution and to examine its books, records, documents and accounts;
- Require an officer or employee of a banking or financial institution to furnish to the Central Bank such information as requested for the purpose of supervision and regulation;
- Take remedial action or sanction according to the existing laws if there has been an offense by a banking or financial institution or its officers or employees with respect to:
    - a. the violation of provisions of the existing laws or regulations of the Central Bank;
    - b. the breach of a fiduciary duty; or
    - c. the failure to follow monetary policy measures or prudential regulations.

The Central Bank may open accounts for and accept deposits from banking and financial institutions carrying out business in the Kingdom of Cambodia under such terms and conditions including the payment of interest and the establishment of charges as it may determine. The Central Bank may prescribe by publication or by written notice to the main office in the Kingdom of Cambodia of each banking and financial institution, the maintenance or required reserves. Such reserves shall be maintained by ways of cash holding or special deposits in current accounts with the Central Bank.

It shall prescribe the same reserve ratios for similar liabilities. The total amount of reserves which the banking and financial institutions are required to hold shall be fixed with reference to the deposits and other similar liabilities with clients. Any prescription of, increase in the required reserve ratios shall be effective one month after a written notice has been given to the banking and financial institution. The Central Bank may exclude certain classes of banking and financial institutions from maintaining reserves. It may impose on any institution which fails to maintain the required reserves a charge at the rate of 1/10 (one-tenth) of the latest refinancing rate set per day on deficiency. Such a charge may be recovered by deducting from any balance of the institution with the Central Bank.

The Central Bank shall determine the procedure and purchase from, sell to, discount or rediscount for the banking and financial institution:

- a). Bills of exchange or promissory notes drawn or made for bona fide commercial, industrial or agricultural purpose, bearing two or more signatures one of which must be that of a commercial bank and maturing within 90 days from the date of their acquisition by the Central Bank; however, provided that bills of exchange or promissory notes drawn or made for the purpose of financing seasonal agricultural production or marketing of crops may mature within 210 days from the date of their issuing;

- b). Any government securities forming part of the public issue and maturing within 90 days from the date of their acquisition;
- c). Any private negotiable claims on the money market as well as all banker claims bearing creditworthy signatures and appearing on a list recognized by the Board;
- d). The Central Bank's own securities. It shall fix and publicly announce its minimum rate for rediscounts, advances, repurchases or loans.

The Central Bank may establish different rates and ceilings for various classes of such transactions or maturities. It may grant to commercial banks advances on their current accounts which are secured by government securities or government guaranteed securities. The banking and financial institution shall comply with the written directives that the Central Bank may issue to it, collectively or on an individual basis, concerning its balance sheet account, off-balance-sheet commitments, and business accounts involving:

- a. the minimum capital;
- b. the minimum amount of net worth of a banking and financial institution;
- c. the prohibition, restrictions, conditions, other provisions.

The banking and financial institutions that engage in similar activities and that are in comparable financial condition shall be subject to similar regulations. They must furnish to the Central Bank such information and data as required for performing its functions. The Central bank may publish such information and data, as a whole or in part, in an aggregate form for classes of banking and financial institutions determined in accordance with the nature of their business, whilst maintaining business confidentiality. It is responsible for promoting interbank services such as risk centralization and unpaid loans. In cooperation with commercial banks, the Central Bank may establish a clearing house for the prompt and efficient clearing and settlement of interbank payments.

4.5.2 The Association of Banks in Cambodia (ABC)

The Association of Banks in Cambodia was formed in 1994 and is recognized by the Royal Government as the official organization to represent the country's private banking sector. Its purpose is to promote constructive dialogue amongst member banks, and to serve as an industry voice to the public and the Royal Government. Its missions are to participate in the development of the Cambodian financial system and to protect the legitimate interests of its members. With this mission, the Banking Association of Cambodia has set 19 specific objectives, of which the 14th objective is to promote active participation in social activities and corporate social responsibility programs (CSR)[32].

The members of the Association of Banks in Cambodia include 44 local and foreign banking institutions and branches. The association arranges meetings at least once a month or more if necessary to address key challenges. In addition, it has set up a number of committees to be responsible for many specific roles and issues. Since 1998, it has become an active member of the Association of ASEAN Banks and has participated in all activities and events organized.

The Association of Banks in Cambodia has set up an initiative on the Cambodian Sustainable Finance Initiative (CSFI), which was officially announced in September 2016[33] for the period of two years under the auspices of USAID, Pact, WCS, and Mekong Strategic Partners, in

[32] Source: ABC https://www.abc.org.kh/our-profile retrieved on 14 October 2020.

[33] The initiative was made public on September 16, 2016 at the Himawari Hotel with the participation of about 60 people from banking institutions, the National Bank of Cambodia, the Ministry of Environment, USAID, Pact, WCS, and Mekong Strategic Partners and some other journalists. In the event, there was a signing ceremony between the Banking Association of Cambodia and Her Excellency Chea Serey, Director General of the National Bank of Cambodia under the testimony of His Excellency Eang Sophalet, Undersecretary of State of the Ministry of Environment.

collaboration with the National Bank of Cambodia and the Ministry of Environment. This initiative aims to develop and strengthen the protection and risk management standards in the financial sector related to the environmental impact caused by the private sector. As a result of these collaborations, the Association of Banks in Cambodia has developed a sustainable financial policy, which incorporates a focus on environmental protection, the preservation of culture, traditions, history and social values existing in Cambodia. The principles are intended 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 a number of key points, such as[34]:

- The association will assess and manage environmental risks related to climate change, pollution, waste management and protection of vulnerable natural resources.
- The association will assess and manage risks that may adversely affect people, especially rural communities, workers, and indigenous peoples, and cultural heritage, including language, culture, traditions, and historical sites.
- The association will assess and manage risks that may have a serious negative impact on heritage, including language, culture, traditions and other monuments.

4.5.3 Finance and Banking Institutions in Cambodia

Finance and banking institutions must comply with sound and prudent credit policies by conducting general operations and loan procedures that must be properly approved and reviewed by management and/or the Board of Directors. All banking and financial institutions must establish:

- 1. Written policies and procedures for formulating credit policies, procedures and defining the lending authority of credit officers and/or credit committees and the Board of Directors, and those policies and procedures must be referred to the staff involving the lending activities.
- 2. All loan applications of the borrower must be up-to-date and reliable. Credit policy, loan procedures and authority must include credit analysis, credit approval process, periodic credit review procedures, credit approval limits of officers and/or credit committee, collateral, and other necessary information[35].

The total weighted outstanding of loans to related parties will in no case be superior to 10% of the bank's net worth. Each banking and financial institution shall send a quarterly declaration of relevant loans to the National Bank of Cambodia and make it copied for its Board of Directors. Any failure to abide by the present regulation will be sanctioned according to the article 52 of the law on banking and financial institution (1999)[36].

The related parties to the banking and financial institutions include the following[37]:

- (a) any person holding directly or indirectly at least ten per cent (10%) of capital or voting rights;
- (b) any company of which the covered entity directly or indirectly holds at least ten per cent (10%) of the capital or voting rights;
- (c) any individual who participates in the administration, direction, management or internal control;
- (d) the external auditors

[34] Source from the website of the Association of Banks in Cambodia https://www.abc.org.kh/CSFI/sustainable-finance-initiative, retrieved on 11 September 2020.

[35] Declaration No. B7-05-054 Prokor on loan policies, procedures and lending authority.

[36] Declaration No. B7-01-137 Prokor on loans to related parties, amended by the declaration no. B7-02-146 dated 07 June 2002.

[37] Royal Kram no. NS/RKM/1199/13 promulgating the law on banking and financial institution, dated 18 November 1999.

(A) Banking Institutions

The banking sector in Cambodia is a two-tier system: the public sector (represented by the National Bank of Cambodia) and the private sector, including commercial banks, specialized banks, microfinance institutions, and a number of participating NGOs in rural credit activities.

Pursuant to the law on banking and financial institutions (1999), all banks must apply for a license and be under the supervision of the National Bank of Cambodia. In the past few years, some banks have not functioned well due to weak management, causing customers to lose trust in the banking system. To address this situation, the National Bank of Cambodia has implemented the law on banking and financial institutions and has re-licensed them. Through the implementation of this new reform program, Cambodia's financial system has continuously developed and ensured high stability.

As of 2019[38], the banking system in Cambodia consists of (a) 47 commercial banks (17 local banks, 17 subsidiaries, 13 foreign bank branches), (b) 15 specialized banks. Of all the banking and financial institutions, commercial banks have been the most important payment service providers as they have benefited from the legal and institutional benefits of receiving deposits from the public. The bank deposits provide an important basis for non-cash payment transactions such as credit card transfers, direct debit and card payments. In addition, commercial banks have deployed and managed payment infrastructure such as ATMs and POS machines.

(B) Non-Banking Instiutions

In addition to banking institutions, there are also non-bank service providers acting as third party processors. A third party processor is an institution authorized by a bank to provide one or more types of payment services to customers. It is authorized through an agreement with a bank and must apply for a license from the National Bank of Cambodia. Pursuant to the law on negotiable instruments and payment transactions, a third party processor may act on behalf of the bank with the following authorization:

- As a communication service provider;
- As an interbank settlement that may transmit information on interbank payments, including the bank where the payment is completed;
- As a provider of money transfer service by phone or other means;
- As a manager or operating agent for a bank account or customers;
- Senders or orders of sending payment sent or received by the bank.

The third party processors must comply with the requirements, conditions and restrictions set forth in all regulations issued by the National Bank of Cambodia. In this regard, the National Bank of Cambodia issued a declaration on third-party processors in 2010. As of December 2014, there are six third party processors licensed by the National Bank of Cambodia: Wing, Viettel, IME, Western Union, Money Gram, and Peggy.

4.5.4 Loan Purpose

The purpose of the loan is the first reason that the borrower uses to apply for a loan, such as to borrow to buy a house or condo, invest in construction projects, factories or large enterprises[39]. The loan aims to help the lender (such as a bank) to determine the level of risks of the borrower because they can know exactly what the purpose of the loan is and what it is used for. Lenders use different loan policies for different loan purposes. Each loan purpose requires the

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[38] The National Bank of Cambodia (2019). Financial Stability Review 2019. Directorate General of Banking Supervision. Phnom Penh. Cambodia.

[39] Source: https://www.newcastle.loans/mortgage-guide/whats-loan-purpose-why-lenders-need-to-know, retrieved on September 25, 2020.

borrowers to come up with different documents to support their loan. It is very important to show in the process of applying for a loan when the borrower is low risk; s/he also gets low interest rates and good loan terms from the lender.

Large exposure is defined as the overall gross exposure resulting from banking and financial institution's operations with one single beneficiary, where such exposure exceeds ten percent (10%) of the institution's net worth[40]. Exposure refers to the highest of the following items (hereinafter referred to as a loan):

- a- the outstanding loan or commitment;
- b. the authorized loan or commitment signature (Article 1[41]).

The banking and financial institutions shall maintain at all times a ratio not exceeding 20 per cent (20%) between their overall exposure resulting from their operations with each individual beneficiary and their net worth (article 2). At the banking and financial institution's request, the National Bank of Cambodia may increase the maximum ratio described in the article 2 of this declaration, up to an extra-large exposure limit, which cannot exceed thirty-five per cent (35%) of the net worth, under the following conditions:

- (a) The banking and financial institution's financial condition is considered "satisfactory" by the National Bank of Cambodia's internal rating or benefits from a rating "investment grade" by an international rating agency;
- (b) The borrower's financial situation is strong, which includes good business perspectives, solvency, profitability and management.

The banking and financial institution shall provide the National Bank of Cambodia with audited financial reports, a credit analysis report and other related documents when applying for approval of exposures exceeding a ratio as described in the article 2 of this declaration. It shall be required to maintain at all times a maximum ratio of three hundred per cent (300%) between the total of their large exposures, as defined in the article 1 of this declaration, and their net worth.

5. Discussion on Research Results

Cambodia's finance and banking sector has resumed from 1979 to the present. In 1996, 1998, and 1999, the Royal Government enacted key regulations in the banking and financial sector to regulate and control bank and financial institutions and to maintain the stability of the banking system in order to strengthen public trust, investors, as well as to enhance efficiency, robustness, competitiveness and high integration to continue to maintain price stability in line with the financial sector development strategy in Cambodia. It has made a significant contribution to ensuring the balance of Cambodia's economy and ensuring investment. Separately, the management of natural resources and the environment has been taken in account by the Royal Government of Cambodia since the establishment of the Ministry of Environment in 1993 and the introduction of the law on the management of natural resources and environmental protection in 1996 and later there have been many other relevant legal norms. Large investments or development projects require bank loans, whether in the country or abroad, to ensure capital security for operations. In general, such large projects often pose risks and damage to the environmental and social resources in and around the project areas. Loan from banking and financial institutions also indirectly contributes to the impacts of projects that receive such loans.

[40] Declaration no. B7-06-226 Prokor dated 03 November 2006 on controlling banks and financial institutions' large exposures.
[41] Ibid.

5.1 Policy Gaps in the Environmental and Finance and Banking Sectors

However, promoting the implementation of the obligation of environmental and social impact assessment in the banking and financial sector is an essential task in further contributing to the prevention of pollution and the conservation of natural resources and the welfare of society as a whole. The banking and financial institutions have played an important role in securing sources of capital for investments, some of which may cause environmental and social impacts in the areas where the investment projects are located. The study gathers some information and evidence on the status and fulfillment of obligations, environmental and social impact assessments in the banking and financial sector, which can provide knowledge into existing awareness and further thinking in promoting management and protection of the environment in this area. The discussions in this section are based entirely on the findings mentioned in the above sections, as described in this report:

- For environmental protection policy and in the context of environmental and social impact assessments, Cambodia's legal framework has not yet been given the attention to promote environmental and social issues and natural resource protection in banking and finance sector. The legislations that have been enacted in the past 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 starting from the classification of projects for the study of environmental and social impact assessments (Declaration no. 021), determination of working conditions for sectoral projects (Declarations no. 092, 116, 118, 119 and 120), preparation of environmental-social impact assessment report (Declaration no. 376), as well as the registration of consulting companies for the study and preparation of environmental and social impact assessment report (Declaration no. 215) and other sub-decrees that contribute to the inspection of environmental and social impact assessment. There is no legal basis or provision for the inclusion or integration of this assessment in the policies and practices of banking and financial institutions in Cambodia. This shortcoming is a testament to the current need to prepare, consider, and begin to take into account the social and environmental impacts possibly resulting from loan or lending to development projects.

- Key environmental policies and laws include the law on environmental protection and natural resource management (1996), the sub-decree no. 72 on environmental impact assessment process (1999), the declaration on the preparation of the environmental impact assessment report (2009), and some other relevant regulations[42], which are used to supplement the environmental impact assessment work, provide for and require all public and private projects to conduct environmental and social impact assessments before they begin project development. However, these provisions do not encourage and promote environmental protection requirements in the banking or financial sector in general. The main reason why these laws did not state or promote this work may be due to the circumstances[43] of the legislation, which mainly focused on economic development, because Cambodia at that time was in a context where both politics and

[42] The sub-decree on water pollution control (1999), the sub-decree on the control of air pollution and noise (2000), the sub-decree on drainage and wastewater treatment system management (2017), the sub-decree on urban waste and solid waste management (2015), Prokas on the use of terms of reference (TOR) for infrastructure development project and tourism sector, agro-industrial crop sector, factory and handicraft project, construction sand and sand business project, construction material stone business project (2018), and a declaration on the classification of environmental impact assessments for development projects (2020).

[43] Ministry of Environment was first established in 1993 and the Law on Environmental Protection and Natural Resource Management was enacted in 1996. The Sub-Decree no. 72 on EIA Process was then put into practice in 1999. These dates show that Cambodia was in the instable and not-fully-peaceful economic and political situation, i.e., Cambodia had internal civil war in the country. Until 1998, the Khmer Rouge management organization was dissolved and back-to-government integration of all Khmer Rouge militaries happened. It was marked as the official end of the internal civil war in Cambodia.

economy still faced weakness. As noticed from 1997 to 1998, Cambodia also underwent difficult global and Asia financial crisis[44, 45&46], civil armed war between political parties[47], and the reconciliating process of all Khmer groups and allies[48]. Attracting investors to increase the nation's gross domestic product is a key priority for policymakers to create the necessary incentives and incentives that the Royal Government of Cambodia can provide. Environmental legislation and protection of natural resources must also coordinate the issuance of rules and regulations according to difficult circumstances. To date, the Royal Government of Cambodia has sought to formulate more environmental policies and considerations to fill in the shortcomings and gaps, but has not amended or revised the existing legislation. Many efforts by the Royal Government of Cambodia, as well as the Ministry of Environment, have not yet fully addressed the need for environmental protection in the banking and financial sectors, as there is still no legal obligation to protect the environment for the bank itself and for the needs of the study, environmental and social impact assessment for the lender before the bank lends (i.e., large scale loans that can cause damage to social and environmental resources). Moreover, the work between the Ministry of Environment Association of Banks in Cambodia and the National Bank of Cambodia on the consolidation of environmental protection in the banking and financial sector has not yet found a clear and detailed starting point for the relationship on this work, other than a memorandum of understanding held between the Ministry of Environment and the Association of Banks in Cambodia in 2019. Furthermore, this memorandum has not been implemented or has done something clear so far. Such deficits are due to the limited implementation funds and no concrete action plan; and also, the outbreak of COVID-19 since the late of 2019. These are the main reasons why environmental protection considerations in the banking and financial sectors are not yet present and implemented.

- Moreover, the regulations in banking and financial sector being present and used have not stimulated the legal obligation for banking and financial institutions to set EIA as the loan evaluation and approval condition. Such discrepancy could be explained by a number of motives. 1) Cambodian banking and financial sector have been through the haggard environment and development in the country in the period of 1990-2000[49] when there was a need of more spurs for investors to come in and invest. At the same time, there was a prerequisite to have banking and financial operations, urging for more loan

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[44] Ngozi Okonjo-Iweala, Victoria Kwakwa, Andrea Beckwith & Zafar Ahmed (1999). Impact of Asia's Financial Crisis on Cambodia and Lao PDR. *Finance & Development (3) 36*. A Quarterly Magazine of the IMF and can be accessed through https://www.imf.org/external/pubs/ft/fandd/1999/09/okonjo.htm

[45] Hal Hill & Jayant Menon (2013). *Cambodia: Rapid Growth with Institutional Constraints*. Asian Development Bank, No. 331, Manila, the Philippines. (accessed through https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwiT0u6ruKDwAhVLeH0KHd2mC-kQFjAOegQIGxAD&url=https%3A%2F%2Fwww.adb.org%2Fsites%2Fdefault%2Ffiles%2Fpublication%2F30140%2Feconomics-wp331-cambodia-rapid-growth.pdf&usg=AOvVaw18SH4_5nSIpnFS0eg0NSfq)

[46] Hem Socheth (2013*). Impact of the Global Financial Crisis on Cambodian Economy at Macro and Sectoral Levels.* CDRI Working Paper Series No. 72, Phnom Penh, Cambodia

[47] Peou, S. (1998). Cambodia in 1997: Back to Square One? *Asian Survey, 38*(1), 69-74. doi:10.2307/2645469

[48] An Sokkhoeurn (2010). *Conflict Resolution in Cambodia*. CICP Working Paper Series No. 35. Cambodian Institute for Cooperation and Peace, Phnom Penh, Cambodia (accessed through https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjvgYu7vKDwAhXOV30KHb10CuYQFjAKegQICBAD&url=https%3A%2F%2Fcicp.org.kh%2Fwp-content%2Fuploads%2F2021%2F02%2FCICP-Working-Paper-No-35.pdf&usg=AOvVaw3GN1_3Y-Qt518mKwbagWZg)

[49] Due to internal civil war among political parties, global economic crisis (1997, 2008 and 2009), the national reconciliation process with Khmer Rouge and the slow economic and social rehabilitation. Cambodia has a relatively low rate of banking intermediation, with bank loans and deposits equivalent to only 8 and 10% of GDP respectively. Source: UNCTAD & ICC (2003). *An Investment Guide to Cambodia. Opportunities and Conditions*. United Nations Conference on Trade and Development and International Chamber of Commerce. New York

endorsements to Cambodians to start, build and expand their businesses and investments. The overwhelming incentives and facilitation for investors including those in banking and financial sector continue to be the thoughtful priorities and attentions of the Royal Government of Cambodia in which such situation becomes the exemption condition for certain requirements including the EIA. 2) The effort of EIA practice has not much been imposed since the beginning of time, for instance, the Sub-Decree no.72 was released in 1999 (3 years after the enact of the Law on Environmental Protection and Natural Resource Management in 1996). 10 years later, the Declaration (Prokas) no. 376 was in used in 2009 and other relevant and detail Declarations were subsequently developed and imposed in 2018, 2019 and 2020 recently. These mentions as raised could elucidate clearly that the advancement of environmental protection and the efforts to reduce environmental and social impacts particularly from investment projects have not been mainstreamed effectively into the banking and financial sector. What has been known to date is the introduction of the Cambodian sustainable financial principles supported and urged by the National Bank of Cambodia and Association of Banks in Cambodia recently since 2019. On the other hand, these principles are voluntary-based and only encourage bank members to apply where and when possible.

- Pursuant to the Declaration no. 021 PRK.BST dated 03 February 2020 on the classification of environmental impact assessments for development projects, some projects require only environmental protection contracts and the others may require initial or full environmental and social impact assessment reports, depending on the type of project as stated in its appendix. The appendix identifies six major project categories, including (1) mining, energy and industry, (2) health, (3) water resources, (4) agriculture, (5) tourism, and (6) infrastructure sector. It should be noted that the investment project with a minimum value of US $2 million is often required only for environmental protection contract, or being approved by the provincial department of environment. Obviously, the greater amount of investment or large-scale investment may require an initial or full environmental and social impact assessment, depending on the type, size and development plan of each project.

5.2 Challenges in Performing the Obligations of Environmental and Social Impact Assessment

Some of the challenges that banking and financial institutions face and find it difficult to participate in the performance of their obligations of environmental and social impact assessments in the context of Cambodia are:

- Cambodia is a country that needs more development and investment to turn itself into a high middle income country by 2030. The Royal Government's policy is to encourage and motivate investors in all areas of development, including banking and finance. The concept that is intended to promote the implementation of the obligations and requirements of environmental and social impact assessment before the loan is approved, as applied by the World Bank, International Finance Corporation, or the Asian Development Bank, is a valid and deeply beneficial concept to reduce or avoid serious risks to natural resources and communities and to contribute to improving the safety of those investment or development projects. But in the context of low motivation[50], high

[50] If these banking and financial institutions are well performing their obligations and requirements for environmental and social impact assessment in their loan appraisals, what are the incentives from the Royal Government? Implementing such obligations is an additional investment of banking and financial institutions. If such an investment does not have the appropriate return from the Royal Government (in any form), the work on this obligation will not be carried out successfully. On the other hand, the law of Cambodia is not yet strictly limited because the resources (both human and budget) and the management and monitoring

market competition, and limited awareness of the benefits of environmental and social protection among banking and financial operators and the public[51], immediate fulfillment of such obligations may be an additional constraint or complication for both operators and clients wishing to seek loans from banking and financial institutions in Cambodia.

- On the other hand, why can some international or regional banks, such as the World Bank, IFC, ADB, do a better job than the banking and financial institutions in Cambodia in requiring this environmental and social impact assessment? We need to look at the differences between these types of banks. These international or regional banks have a different vision, mission, and mandate than local ones. They are some kinds of for-profit banks, but at the same time refer to the use of financing provided to contribute to poverty reduction, the promotion of human rights, the protection of women and children, the prevention of violence, protecting the natural resource management, or protecting indigenous peoples. The obligations of environmental and social impact assessment are obligations that banks must carry out to ensure the protection of their vision, mission and their good performance. Not only does it require an appraisal study, some international financial institutions, such as the IFC, require the borrower to apply for a specific environmental and social management system (ESMS) within their unit or institution. This system requires additional investment in human resources, budget and strategy to demonstrate the project owner's commitment and environmental protection obligations. In addition, they are also signatories to international conventions[52], which are required a high level of thinking and practice to protect the environment and social welfare. This is not the case for banking and financial institutions operating in Cambodia presently. Local banks often fulfill obligations of corporate social responsibility programs (CSR) only on a voluntary basis.

- Lack of in-depth understanding of the benefits of fulfilling obligations of environmental and social impact assessments among both investors and banking and financial operators is a major contributing factor to the failure to consider and carry out this obligation in the banking and financial sector. Obviously, achieving environmental protection and reducing the risks that can be caused by the project action plan is a long-term advantage that brings many benefits, such as (1) adding a good reputation to the project and the project owner for the high responsibility for protecting the common human resources; (2) This good reputation will help create additional advantages and value to the project and the project owner, which can be used as a positive point in seeking additional capital or credit from other national and international banking and financial institutions; (3) Reducing or avoiding negative impacts on resources and help create or increase natural resources for the public good; (4) Reducing project risk and strengthen the protection of project benefits directly through Internal and external risk management; And (5) promoting

mechanisms for this work are still low and scarce, which will not be able to guarantee. Effectiveness and efficacy of the fulfillment of the obligations and requirements of environmental and social impact assessment in the banking and financial sector.

[51] Environmental and social impact assessment is a purely technical work that requires a high level of experience and understanding. There have been no previous official studies on public awareness of this work, but it can be assumed that the level of awareness and perception of this assessment work is still low among the public and public-private staff. On the other hand, environmental and social impact assessments do not seem to have been disseminated very often. Only development project owners and some direct stakeholders (such as some NGOs, appraisal consulting firms, etc.) are aware of and understand the work and process of this assessment.

[52] The World Bank is one of the first institutions to drive the development of the carbon market. With this role, the Bank has contributed to being a catalyst and developing the carbon market, innovating and developing many new tools and methods, building capacity, practicing leadership in partnership with both national and international partners in determining the market and the price of carbon. Source: https://ieg.worldbankgroup.org/blog/lessons-for-paris-agreement-carbon-markets-kyoto retrieved on October 26 2020.

investment based on win-win principles and the achievement of sustainability, both project benefits and natural resources and communities.

- Moreover, the loan sizes in Cambodia remain small for borrowers. Large exposure is an overall gross exposure resulting from banking and financial institution's operations with one single beneficiary, where such exposure exceeds ten percent (10%) of the institution's net worth. The Declaration No. B7-016-117 dated on 22 March 2016 of the National Bank of Cambodia requires the minimum registered capital for licensed banks. US$ 75 million is required for licensed commercial banks. Based on this minimum capital and other tiers to calculate the bank's net worth for one banking and financial institution, one borrower in Cambodia has limited ability (i.e., based on the amount of large exposure that could be US$ 7.5 million per borrower) to run a business or execute an investment project that will seriously degrade the quality of the environment and the community. Such small loan sizes make banking and financial institutions more reluctant or worriless that their loans will not be able to largely modify the environmental and social system.

- Most foreign direct investment in Cambodia comes from China in infrastructure and resource development (rubber, energy, and tourism). The investment from China is generally observed to be less thoughtful and effective in protecting the environment and social welfare in the countries in which it invests. The Chinese-invested hydropower projects have caused damage and risk to natural resources and resettlement of people living near and above the project areas. Foreign media[53] and many researchers[54] noted the consequences of Chinese investment projects. "*Chinese investment has had an impact on Cambodia's foreign and domestic policies, which could lead to authoritarian rule and could lead to environmental and socio-cultural changes*[55&56]". The Chinese investment in a number of resort development projects has had a detrimental effect on forests and biodiversity in those areas. An example is the Golden Silver Golf resort development project in Sihanouk province, which covers a total area of 3,300 hectares in the Ream National Park area and is approximately 28 km from Sihanouk town[57]. In addition to the economic benefits and contributions to people's lives[58], the investment

[53] Source: DW https://www.dw.com/en/how-chinese-money-is-changing-cambodia/a-50130240 retrieved on October 24 2020.

[54] *"Weak rule of law, corruption and political risk are factors found to deter foreign direct investment (FDI) and all are characteristics of Cambodia's investment environment. Yet Chinese outward FDI has been found to contradict these general trends, as illustrated by levels of Chinese investment in Cambodia."* O'NEILL, D. (2014). Playing Risk: Chinese Foreign Direct Investment in Cambodia. *Contemporary Southeast Asia, 36(2)*, 173-205. Retrieved October 26, 2020, from http://www.jstor.org/stable/43281288

[55] Source: NIKKEI Asia https://asia.nikkei.com/Opinion/Chinese-investment-strains-Cambodian-society retrieved on October 26 2020.

[56] "*Cambodia understands that 'internationalization' of its domestic politics will not go away any time soon, especially when its evolving young democracy is becoming 'electoral currency' for some foreign politicians who often have oversimplified views over Cambodia's historical and political complexities, and are not fully aware of the values of the 'longest peace in Cambodia's modern history*'" – Asia Times, published an article "Dynamism of Chinese Investment in Cambodia" on November 8, 2019. The article can be accessed through https://asiatimes.com/2019/11/dynamism-of-chinese-investment-in-cambodia/

[57] Sovinda Po & Kimkong Heng (2019). *Assessing the Impacts of Chinese Investments in Cambodia: The Case of Preah Sihanoukville Province.* A Working Paper on China-Cambodia Relations. ISSUES & INSIGHTS, Vol. 19, Pacific Forum (https://www.researchgate.net/publication/333310139_Assessing_the_Impacts_of_Chinese_Investments_in_Cambodia_The_Case_of_Preah_Sihanoukville_Province_ISSUES_INSIGHTS_A_Working_Paper_on_China-Cambodia_Relations_Pacific_Forum)

[58] "*... the case study shows to some extent that Chinese investment in the Cambodian garment sector has contributed to poverty reduction by creating employment for rural people." "... Chinese investment in the garment sector has considerably contributed to poverty reduction in Cambodia by providing employment opportunities and income generation for the rural poor." The impacts of China's official development assistance on poverty reduction are assessed through two case studies on China funded projects in the transport sector: the Rehabilitation of National Road No 7 from Kratie to Trapeang Kriel (a border-crossing to Laos) and the Construction of the Prek Tamak Bridge in Kandal province. "Conversely, the villages can be reached more readily by development agencies which could bring social services to the areas as well as help in managing forest resources. In short, both projects have brought more livelihood options for local people."* OUCH Chandarany, SAING Chanhang and PHANN Dalis (2011). *Assessing China's*

from China has raised concerns about the loss of natural resources and the impact on the social and cultural resources of the people and Cambodia. The source of investment for these projects may come from the Export-Import Bank of China, which is known to have no clear policy on environmental and social protection, although it has policies of Green Finance[59] and of Poverty Alleviation in place[60].

- It has been so far practiced that project owners or clients who have received loans or credits from international or regional banks (such as the Asian Development Bank, the World Bank, or the International Finance Corporation) have diligently studied and prepared environmental and social impact assessments in order to meet the absolute need to fulfill the rightful conditions of those banks. The needs of these banks reflect the recognition of concerns about environmental-social issues and long-term sustainable development that are becoming active topics in the context of development. The provision of loans or credits in any amount enables clients or project owners to develop a number of large-scaled projects that could pose significant risks and impact on the environmental and social resources of the communities in which they are located. Due to financing that provides clients with sufficient capacity to clear, build, utilize resources, and operate their projects on a large scale, which may cause disruption or conflict with resources and livelihood activities of people in and around the project areas. In the volatile context, bank financing has boosted the momentum of industrialization, urbanization, agriculture, and tourism through related development projects. Those momenta have led to changes in land use and human settlements, resulting in declining water and land quality, degradation and loss of biodiversity, encroachment on forests and protected areas, increased pollution, and the negative impact on human health. It is imperative that banking and financial institutions in Cambodia should begin to understand the consequences of loans or credits in reflection on damage to the quality of environment and socio-cultural resources in order to reduce the risks that may affect their clients and development projects instead.

- Cambodian Sustainable Finance Principles, launched by the Association of Banks in Cambodia in 2019, reflects a degree of consideration for environmental and socio-cultural issues; however, this consideration is the responsibility of the banking institutions to be ready to establish and implement appropriate environmental and social risk management, especially before the approval of consumer loans. On the other hand, it is a voluntary principle and has no value as a form of legislation that members must adhere to. The association only encourages and motivates its members by acknowledging their compliances and efforts through certification and recognition.

- Of the 19 main objectives of the Association of Banks in Cambodia (ABC), only the 14th objective states that the association will be active in implementing the social corporate responsibility (CSR). This social responsibility program has no legal value that requires member banks and general banks to have mandatory obligations. It is implemented on a voluntary basis, meaning that the bank decides for itself whether to or not to implement it. Some banks are members of bank alliance outside of Cambodia, or have foreign sources of capital, which have policies that apply to the implementation of social responsibility programs for their members or partners, that is why they are required to

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Impact on Poverty Reduction in the Greater Mekong Sub-region: The Case of Cambodia. Working Paper Series No. 52. Cambodia Development Resource Institute, Phnom Penh, Cambodia

[59] The Export-Import Bank of China – Green Finance http://english.eximbank.gov.cn/Responsibility/GreenF/

[60] The Export-Import Bank of China – Targeted Poverty Alleviation http://english.eximbank.gov.cn/Responsibility/PovertyA/

do so. In particular, most banks in Cambodia have sources of capital in the country that may not fulfill their social responsibility obligations.

- In particular, the Association of Banks in Cambodia strives to promote sustainable financial principles by carefully considering the protection of the environment, the protection of human society and the protection of cultural heritage. The association is highly committed to prioritizing the values of environmental and socio-cultural resources through impact assessment, management and prevention of causes and effects, avoidance and mitigation of risks or adverse effects, which may result from commercial activities, standards or transactions of customers who have received finance from the bank. These are just some of its principles that are voluntary-based, but they are not yet worth considering, which can drive the legal need for members to implement them. Relatively, based on the interview responses during the study, bank operators mentioned that they usually assessed environmental risks on the loans or credits to be approved for borrowers in order to assure their capacity and efficiency to pay back. For example, the assessment focused on the geographical areas of the business or investment of the borrowers whether they were more prone to natural disasters such as flood, storm, forest fire, other risks that could destroy their business or investment. Based on this mention and similar experiences known for other banking and financial institutions, it could be concluded principally that some banks have not paid solemn attention on particular impacts from their loan or credit endorsements over the environmental and social resources where the business or investment of their clients is operated. However, these institutions gave more weights to environmental or disaster harms that could end up their loans and the capacity of their clients to pay back instead.

- Some banks have put in place certain principles or policies to restrict or prohibit the approval of loans for projects that are contrary to their (sustainable) environmental and social principles. In fact, ACLEDA Bank's Environmental and Social Sustainability (ESS) Report[61] shows that the bank itself is highly committed to striving for high profitability while working to protect the environment and the community. It sets indicators for measuring and reporting activities and environmental and social impacts. The ACLEDA Bank has a policy of prohibiting the provision of credit or support for activities that are harmful to the environment, either unethical or harmful to human rights. Some policies strictly prohibit all activities related to coercion or abuse of child labor, arms and ammunition trade, gambling, brothels, trafficking or wildlife products[62], which is regulated by laws as well as the production or trade in radioactive or highly hazardous raw materials. The bank requires a statement of loan purpose to certify that the client's business complies with the above principles. In addition, the ACLEDA Bank supports renewable energy by providing loans to customers wishing to do business in biogas and solar energy. For the promotion of environmental and social protection, the ACLEDA Bank has assigned 5 environmental staff who are fully responsible for training and retraining to coordinate environmental activities and oversee its operations. Though with such positive progress, ACLEDA has not yet required EIA as an approval condition for their large exposure, but instead strived to keep their environmental impacts as low as it can from their banking performance as understood through the ESS Report.

[61] https://www.acledabank.com.kh/kh/eng/bp_sustainabilityreport

[62] Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

- In general, loan purpose is to determine if a project will use the credit for something that could cause environmental and social harm. The thorough scrutiny of this purpose will prevent or reduce the use of funds in the direction that the bank prohibits or that may cause conflict, damage, or destruction of the country's environmental and social resources and local people. As experienced, a small number of project owners misrepresent this purpose, claiming that the loan will be used for normal business purposes, but in fact the capital will be used for other prohibited operations. The results of discussions with representatives of banking and financial institutions confirm that the strengthening of loan evaluation and inspection procedures is a starting point to reduce the risks of improper loan approval. However, these institutions find it difficult to oversee this purpose, but in addition they can use their lawyer's role to ensure legitimacy and accountability before the law. The loan is converted or the loan is used contrary to the proposed loan purpose. These tasks must be done in writing in the loan agreement clearly before the loan is approved. In addition, banking and financial institutions need to strengthen controls on the use of loans at a later stage and apply the principle of loan withdrawal or liability before the law if it is not found that the loan is not used in accordance with the contract.

- The results of the study clearly show that banks in Cambodia do not have specific policies and practices regarding the need for environmental and social impact assessments on projects that receive loans from banks and other financial institutions. Contrary to what has been done for regional and global banks, such as the Asian Development Bank and the World Bank or International Finance Corporation, that require environmental and social impact assessments for projects that are identified as having environmental and social risks according to the classification level (A, B, C) set by the bank.

- The Ministry of Environment maintains its intention to disseminate and integrate the environmental and social protection ideas through working with the National Bank and the Ministry of Economy and Finance to discuss and find possible starting points for formulating policies and guidelines available for banking and financial institutions in Cambodia. This start-up is a necessary campaign to strengthen ties between the two sectors in order to achieve a win-win policy. In this sense, banking and financial institutions can further reduce the risk of repayment of loans they provide because project owners have organized and prepared to respond to environmental and social impacts while the Ministry of Environment can accelerate the prevention of pollution and more effective management of natural resources.

5.3 Best Practices of Implementing Obligations on Environmental and Social Impact Assessment

Best practice refers to proper or correct implementation or practice or successful experience gained from direct performance that is compiled for sharing with other stakeholders for use as a model[63]. The results of the study and consultation with stakeholders at the meeting on November 4, 2020 confirms that the banking and financial sector in Cambodia has not yet implemented the obligations of environmental and social impact assessment as the conditions for approving loans. The best practice of this assessment process in the banking and financial sector was not available during this study period, as the Ministry of Environment as well as the National Bank of Cambodia has not yet identified a legal requirement for the current banking and financial

[63] Source: Rien (https://www.rienonline.com/glossary)

institutions doing businesses in Cambodia. The absence of this advantage is discussed and illustrated in the explanations in the sections 5.2 and 5.3.

Implementing the corporate social responsibility (CSR) obligations has been observed as an activity for some banking and financial institutions to enhance their business image and operations. However, this form of practice does not yet have the value and weight that can lead to the reduction or management of risks from bank loans on natural resources and communities as the implementation of environmental and social impact assessments. On the other hand, loan risk assessment, which based on the Sustainable Financial Principles (of the Association of Banks in Cambodia), is the responsibility of banking and financial institutions to collect information and data on their own to determine whether how serious the risks of loans to be approved, for example, in the context of climate change, for those loans related to agriculture, become. Overall, the implementation of environmental and social impact assessment obligations in the banking and financial sectors, especially the conditions for loan approval, has not yet taken shape. This deficiency should turn out to be a good starting point for advancing this work for the better in the future.

6. Conclusion

Promoting the environmental protection and natural resource management is an inter-disciplinary task that requires the active and close involvement of relevant sectors or institutions, such as banking and finance. The provision of loans is an important 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 especially contribute to ensuring a good investment climate for large development or investment projects. The projects continue to provide employment opportunities, income and development progress of Cambodia as a whole. 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 a number of 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. There are conflicts, or physical cultures, etc. that require the project owner to receive financing to avoid or minimize the risks or impacts on the resources described above.

The lack of enforcement of environmental and social safeguards in the banking and financial sector in Cambodia is a major concern as credit from this sector has contributed extensively to many development or investment projects, some of which have resulted in damage or conflict with the local resources of the people. 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.

Particularly, the Ministry of Environment and the Department of Environmental Impact Assessment have strictly enforced the obligations to manage and monitor the process and implementation of environmental and social impact assessment studies for any projects in the appendix to the declaration no. 021 BRK.BST on the classification of environmental impact assessments for development projects (2020) and other relevant legal practices. A compromise on environmental and social impact assessment obligations between the environment and banking and finance sectors has not yet been established. The Association of Banks in Cambodia set out sustainable financial policies, but is not a mandatory requirement for its members. In addition, ACLEDA Bank has implemented the principle of environmental and social sustainability, prohibiting the approval of loans for projects that may have an impact on the environment, society and human rights, but this principle does not require environmental and social impact assessment, that is, loans will not be approved if the projects are subject to the bank's prohibitions.

The results of the study presented in this report show that the implementation of policies and labor standards of the environmental and banking and financial sectors are still on two different ways, despite the banking and financial institutions, some have begun to gradually integrate awareness and practice of the obligation to contribute to sustainability and environmental and social responsibility. Responding to these shortcomings, the report identifies a number of solutions and measures that are needed to promote the joint implementation of environmental and social impact assessment needs for loans or credits that may pose a risk to environmental resources and socio-cultures.

7. Key Recommendations

(A) Short-term recommendations:

- The Ministry of Environment and the Department of Environmental Impact Assessment should initiate or continue talks and discussions with the National Bank of Cambodia and the Association of Banks in Cambodia to find policy-forming solutions to promote the implementation of environmental and social requirements for bank's financing to the development projects, which exist in the appendix list of Declaration no. 021 PRK.BST dated 03 February 2020 on the classification of environmental impact assessment for development projects. Based on the Memorandum of Understanding in 2019, the common policy, which is an example for the implementation of this Memorandum, includes *the joint-declaration on the requirements of the environmental and social impact assessment report for the banking sector in Cambodia*.

- Based on the spirit of the Memorandum of Understanding 2019, the Ministry of Environment, the National Bank of Cambodia, and the Association of Banks in Cambodia should develop a more detailed and specific joint action plan to guide the implementation of environmental protection in the banking and financial sector in Cambodia, focusing on the implementation of environmental and social impact assessments in the operation of banking and financial services.

- As an entry point and to ease the work, National of Bank of Cambodia shall introduce a guiding policy (set as a requirement) to financial and banking institutions to apply or consider the policies and regulations in relation to environmental and social impact assessment (particularly the Sub-Decree no. 72, Declaration no. 021, 092, 116, 118, 119, 120 and 376) prior to their loan or credit approvals. In addition, the compliance report to these policies and regulations shall be regularly submitted to National Bank of Cambodia for archive and reference document and for future monitoring on their performance.

(B) Medium-term recommendations:

- Under the financial and technical assistance from its partners, the Ministry of Environment, with the Department of Environmental Impact Assessment as its general staff, shall develop additional guidelines on required procedures and operational standards for environmental and social impact assessment that can be implemented with the banks in Cambodia. This procedure and standard include a joint-declaration (between the Ministry of Environment and the National Bank of Cambodia) on the requirements for social and environmental impact assessments in the banking sector, and a handbook on legal standards regarding environmental-social impact assessment, and procedures for monitoring and approving the environmental and social impact assessment report, the process of public participation in the environmental-social impact assessment study, the environmental observation, and some administrative formalities (i.e. Rapid Assessment Matric for classifying environmentally risky loan projects), which can facilitate the bank's performance in implementing environmental and social impact assessment requirements on consumer loans.

- Banking and financial institutions need to continue to strengthen and operate more thoroughly before approving loans, emphasizing the procedures for evaluating and controlling loans and monitoring loan operations at a later stage. In case the loan is not used for its proper purpose or used separately in the type of business prohibited by state law or deviating from the loan policy of the banking and financial institution or used for any activities that may cause environmental and social risks, it must be withdrawn immediately or the borrower is required to conduct the environmental and social impact assessment or to fulfill the legal obligations of any relevant ministry before the loan is renewed. In severe cases, the loan shall be terminated unconditionally.

(C) Long-term recommendations:

- In the spirit of the Memorandum of Understanding in September 2019, the Ministry of Environment, the National Bank of Cambodia, and the Association of Banks in Cambodia should jointly develop a strategic plan for educating, disseminating, and promoting accurate and up-to-date awareness of environmental and social impact assessments in banking and financial sector in Cambodia. The plan is aimed at the general public, banking and financial services operators and the local community in general. The dissemination should highlight important issues such as (a) what is the environmental and social impact assessment? (b) the process of studying, monitoring, and approving environmental and social impact assessments in Cambodia, (c) legal frameworks in the environmental and banking and financial sectors, (d) the main roles of the Ministry of Environment, the National Bank of Cambodia, the Association of Banks in Cambodia, and the project owners, (e) the benefits of performing obligations on environmental and social impact assessments in the banking and financial sector.

- For the purpose of long-term environmental and social protection, the Ministry of Environment and the National Bank of Cambodia should provide guidance through a number of policies and implementation tools (such as relevant technical guidelines) to the lending bank, requiring the lender to establish an Environmental and Social Management System (ESMS) for its institution to ensure that environmental or social issues or risks which may result from the use of bank loans will be avoided, reduced or compensated for irreparable damages.

Discussion Questions for Relevant Stakeholders

1. What are you loaning policies in your institution?
2. What is the large exposure for financial and banking institutions and what are the necessary requirements for such loan?
3. What risk criteria banks should be very careful once approving their loans to clients?
4. What is large exposure for your bank? And what are your approving criteria?
5. What are the relevant environmental policies of the National Bank of Cambodia?
6. What do you think about the mainstreaming environmental concerns and EIA in financial and banking sector in Cambodia?
7. What do you think financial and banking sector should do first to integrate environmental concerns in their operation?
8. What do you think the most difficulties in starting such initiatives in financial and banking sector in Cambodia?
9. What environmental policies or EIA do you know about in Cambodia?
10. Any last comments?