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# Research on Cross-border Investment in Agriculture

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## Final Report

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វេទិកាសម្រាប់អង្គការមិនមែនរដ្ឋាភិបាល ស្តីពីកម្ពុជា  
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## Executive Summary

This study is an examination of cross-border agricultural investments in Cambodia. It is divided into four main sections, with the first providing an overview of Foreign Direct Investment (FDI) in the country's agribusiness sector, the second breaking down the nature of Cambodian agribusiness investments, the third being a case study involving a foreign agribusiness company investing in Cambodia, and the fourth reviewing good practices in the financial sector, particularly regarding sustainable practices in agricultural investments.

Findings from each of these sections indicate that Cambodian FDI has been steadily increasing in the past ten years; the bulk of FDI in Cambodian agriculture is directed into the agribusiness sector and rubber plantations; the top three countries of origin of agribusiness investments are Cambodia itself, China and Vietnam.

Finally, despite being in its infancy, sustainable finance worldwide and in Cambodia is being steadily adopted into mainstream practice by stakeholders (including financing of agricultural investments). Our research suggests that companies are increasingly aware of the benefits of sustainable finance. This is in part because green loans are becoming more competitive globally, improving the business case for companies to use them. This is a trend that is likely to continue. In Cambodia, a particularly promising finding was the increasing momentum reported by the Association of Banks in Cambodia regarding the launch of their "Sustainable Finance Principles" in 2019 – and the positive uptake of these principles by their members.

Overall, our research found several international best practices that could be applied to Cambodia. The final section of the study provides 10 recommendations to improve the sustainability of Cambodia's financial sector, particularly regarding the management of its exposure to Environmental and Social (E&S) risks when financing agricultural and agribusiness investments. Our study identifies local stakeholder capacity building as a key tool to leverage the global trend towards green finance - and accelerate its uptake within Cambodia.

## 1 Background

### 1.1 FDI into Cambodia

Despite the outbreak of the coronavirus pandemic in 2020 and its severe repercussions on the world economy, Cambodia's longstanding trend regarding FDI remains positive. FDI into Cambodia has been increasing almost every year from 2010 to 2019, as shown in the table below.<sup>1</sup>

Cambodia's Inward FDI 2010-2019, Year by Year (in US \$ million)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
782.5	891.7	1 557	1 274.9	1 726.5	1 700.9	2 281	2 733	3 102.5	3 706

#### 1.1.1 Total FDI

The total amount of FDI inflows to Cambodia from 2010 to 2019 amounted to almost US \$20 billion. The Royal Government of Cambodia has long adopted a pro-business stance, encouraging the country to open to private investment from abroad.

<sup>1</sup> ASEAN Stats Data Portal. <https://data.aseanstats.org/indicator/FDI.AMS.TOT.INF>

The data below breaks down the composition of FDI by economic sector.<sup>2</sup> The sectors receiving the largest shares of FDI were *Manufacturing* and *Finance*. In 2019, agriculture constituted less than 2% of the total value of inward FDI.

### Cambodia's Inward FDI 2010-2019, by Sector (in US \$ million)

Sector	2013	2019
Agriculture, forestry, and fishing	2,330.2	2,602
Mining and quarrying	8,103.6	3,519.7
Manufacturing	39,905.1	56,242.3
Electricity, gas, steam, and air conditioning supply	1,193.7	1,559.2
Water supply; sewerage, waste management and remediation activities	597.9	559.1
Construction	836.3	2,809.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	17,384.3	18,281.7
Transportation and storage	2,612.4	1,438.3
Accommodation and food service activities	21.2	-54
Information and communication	1,827	-803.4
Financial and Insurance activities	22,078	51,306.9
Real estate activities	9,312.1	9,873.3
Professional, scientific and technical activities	421	688.6
Administrative and support service activities	62.1	408.2
Public administration and defence; compulsory social security		11.3
Education	65.7	37.8
Human health and social work activities	131.1	2,313.9
Arts, entertainment and recreation	221.2	66.6
Other services activities.	10,210.4	3,497.7
Unspecified activity	3,651.6	6,202.2
TOTAL	120,965.5	160,561.8

### 1.1.2 Sources of FDI

By analysing the inward FDI value (in fixed assets) by country of origin from 1994 to 2017, China emerges as the largest investing country in Cambodia, with approximately one-third of the share, valued at US \$ 12.6 billion. The second and third positions are occupied by South Korea and the United Kingdom respectively, with the former possessing assets of the value of 4.6 US \$ billion (13.4%) and the latter 3 US \$ billion (8.7%). Other countries individually own less than 8%. The full table is shown below<sup>3</sup>.

#### Top 10 Sources of Inward FDI to Cambodia (1994-2017), by Country of Origin

Rank	Investing Nation	Fixed Assets (US \$m)	% of total FDI
1	China	12,601	36.39%
2	South Korea	4,651	13.43%

<sup>2</sup> ASEAN Stats Data Portal. <https://data.aseanstats.org/fdi-by-sources-and-sectors>

<sup>3</sup> Oxfam International. (2019). Foreign Direct Investment in Agribusiness in Cambodia. [https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file\\_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf](https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf)

3	United Kingdom	3,027	8.74%
4	Malaysia	2,728	7.88%
5	Vietnam	1,762	5.09%
6	United States	1,362	3.93%
7	Hong Kong	1,334	3.85%
8	Singapore	1,225	3.54%
9	Japan	1,211	3.50%
10	Taiwan	1,208	3.49%
	Others	3,514	10.15%
	<b>Total</b>	<b>34,625</b>	<b>100</b>

### 1.1.3 FDI in Agriculture

The Cambodian Government has been actively pursuing foreign investment into agriculture in recent years, with 11.4% of total FDI from 1994 to 2017 being destined to the sector, with the value rising across the years. From 2011 to 2016, in particular, the value of year-by-year agricultural FDI rose by 366%, from 794.5 US \$ million to 3.7 US \$ billion.<sup>4</sup> This investment has been largely channeled into several Economic Land Concessions (ELCs), or provisional land tenures, granted by the Royal Government to private investors through lease agreements.<sup>5</sup>

We can see below how total agricultural investment (including both domestic and foreign) from 1994 to 2017 is divided according to nine agricultural subcategories, with the total number of projects approved for each subcategory.<sup>6</sup>

#### Agricultural FDI in Cambodia (1994-2017, by Subcategories)

Subsector	Projects	Fixed Assets (US \$ million)	% of Fixed Assets
Agro-Industry	98	3,537	57.9%
Rubber Plantation	67	1,643.4	26.9%
Rice Mill	27	551.7	9%
Plantation (other)	41	212	3.4%
Other	10	95.2	1.5%
Animal Farming	9	48.3	0.7%
Flour	3	6.6	0.1%
Fishery	1	4.9	0.08%
Tobacco	1	2.1	0.04%
<b>Total</b>	<b>257</b>	<b>6 101.5</b>	<b>100%</b>

According to the latest estimate, there are at least 301 ELCs in Cambodia, covering a total area of 2.18 million hectares, or 12% of the country's landmass.<sup>7</sup>

<sup>4</sup> Oxfam International. (2019). Foreign Direct Investment in Agribusiness in Cambodia. [https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file\\_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf](https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf)

<sup>5</sup> LICADHO. Cambodia's Concessions. [https://www.licadho-cambodia.org/land\\_concessions/](https://www.licadho-cambodia.org/land_concessions/)

<sup>6</sup> Oxfam International. (2019). Foreign Direct Investment in Agribusiness in Cambodia. [https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file\\_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf](https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf)

<sup>7</sup> CIA World Factbook. (2020). Cambodia Geography 2020. [https://theodora.com/wfbcurrent/cambodia/cambodia\\_geography.html](https://theodora.com/wfbcurrent/cambodia/cambodia_geography.html)

## 1.2 The Impact of FDI on ESG Issues in Cambodia

As in other developing countries, FDI into agriculture presents both benefits and drawbacks, particularly for the local communities, as exemplified in other studies on the sector. These features can be summarised as below.<sup>8</sup>

### Impact of Agricultural FDI, Benefits and Drawbacks

Potential Benefits	Potential Drawbacks
Technology transfer and innovation	Loss of biodiversity
Financially inclusive business models	Loss of culture/indigenous communities
Introduction of international best practices	Land speculation
Access to larger markets	Land loss and disputes
Value chain development	Resettlement
Access to foreign currency	Unfulfilled job promises
Economic development	Overuse of agricultural inputs
Economic spillover	Pollution
Job opportunities	Loss of livelihoods and rural income
Improved infrastructure	Loss of conservation areas
Improved food security	Reduced food security
Improved gender equality	Reduced gender equality

If not regulated or conducted responsibly, agricultural FDI may present an unequal distribution of costs and benefits to the stakeholders involved.

In particular, the risk is that the brunt of the costs – social, environmental, and economic (also referred as Environmental, Social and Governance, or ESG, issues) – are borne by local communities and ecosystems, whilst most of the benefits (economic, mostly) are reaped by investors. Examples of costs borne by the local environment include land degradation, deforestation, and illegal land grabbing.

Unfortunately, as Cambodia has opened more and more to FDI in agriculture in recent years, there has been several cases involving such issues. Several foreign agribusinesses holding ELCs and producing cash crops have been accused by human rights organisations and local communities of illegally grabbing communal land – including forest areas – and converting them to agricultural use.

## 2 Methodology

The aim of this report is to shed light on cross-border agricultural investments in Cambodia.

This report contains two main deliverables: (1) the research report tracking financial flows in cross-border investment in agribusiness, and (2) the company case study.

The research report will analyse financial flows in cross-border investments in agriculture in Cambodia. Besides conducting a desk review, we planned to interview relevant stakeholders operating in Cambodia: banks, NGOs,

<sup>8</sup> Oxfam International. (2019). Foreign Direct Investment in Agribusiness in Cambodia. [https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file\\_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf](https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf)

sectoral associations of finance, and ELC holders. We also made requests for updated data from relevant government ministries.

The company case study, as per our agreement in the kick-off meeting with NGO Forum, will focus on showcasing the practices of Hoang Anh Gia Lai (HAGL), a Vietnamese-based holding company operating in the agribusiness sector in Cambodia. HAGL has been involved in a series of controversial cases of illegal land-grabbing and deforestation in the country.

Our preliminary list of interviews is shown below.

### List of Interviews

Stakeholder Type	Name of the Organisation/Company	Rationale
ELC Holder	HAGL Group	Major company in agribusiness
Finance Institution	World Bank	Promotor of international initiatives to make FDI more sustainable
Finance Institution	International Finance Corporation (IFC)	Promotor of international initiatives to make FDI more sustainable
Finance Institution	Association of Banks in Cambodia (ABC)	Promotor of initiatives to make FDI more sustainable in Cambodia
NGO	USAID	Has knowledge of agriculture FDI/impacts thereof in Cambodia
Bank	National Bank of Cambodia (NBC)	
Bank	Prince Bank	Potential funder
Bank	Acleda	Potential funder

We consider our interview with the Association of Banks of Cambodia to be the most important for the research report, as it will allow us to gain further insights into the companies involved in financing agricultural FDI in Cambodia. Possibly, acquired knowledge from this meeting will enable us to identify new stakeholders – particularly Financial Institutions (FIs) - to be interviewed.

## 2.1 Scope

The scope of the research report is to analyse financial flows in cross border agricultural investment in Cambodia. 298 crops in total are planted on the estimated 301 ELCs in Cambodia.<sup>9</sup> The crop most planted by ELC holders is rubber by far, followed by cassava, acacia, sugar cane and cashew nut. All these crops are important food or export products for Cambodia. The more detailed distribution of ELCs by type of crops is shown below.

### ELC Distribution, by Crops

Crop	Number of ELCs
Rubber	162
Cassava	32
Acacia	27
Sugar Cane	19
Cashew	15

<sup>9</sup> Oxfam International. (2019). Foreign Direct Investment in Agribusiness in Cambodia. [https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file\\_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf](https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf)

Miscellaneous	10
Jatropha	9
Crop	6
Palm Oil	5
Rice	4
Corn	4
Apple	3
Bean	2

### 3 Financial Flows to Cross-Border Investment in Agribusiness

#### 3.1 Overview

According to LICADHO's latest estimates, 2.1 million hectares of Cambodian land are held under 301 Economic Land Concessions (ELCs).<sup>10</sup>

By elaborating the data, we see that the majority of ELC land hectares are owned by Cambodian companies (44.3%), followed by those owned by the Chinese (17.5%), Vietnamese (16.6%) and Singaporeans (6.3%). Other countries each hold less than 5% or less of the total land. The full list of source countries with related number of owned ELCs and percentage of land is shown below.

#### Cambodian ELCs by Source Country, ELCs and hectares owned

Country	Number of ELCs	% of Number of ELCs	Hectares Owned	% of Hectares Owned
Cambodia	126	41.9%	969,502	44.3%
China	54	17.9%	362,515	17.5%
Vietnam	55	18.3%	384,041	16.6%
Singapore	11	3.7%	90,844	6.3%
Malaysia	12	4%	59,663	4.2%
Thailand	7	2.3%	56,548	2.7%
Korea	8	2.7%	137,815	2.6%
Other	14	4.7%	94,123	4.7%
Unknown	14	4.7%	33,694	4.7%
Total	301	100%	2,188,745	100%

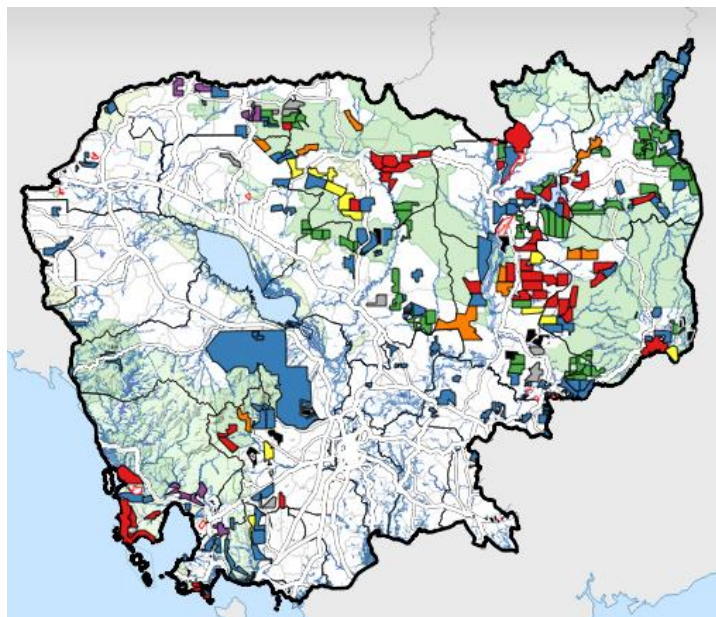
Using the latest data from an interactive map drawn by LICADHO (see below), we provide further information regarding the profile of ELCs in the country, their country of origin, and crop(s) produced.<sup>11</sup>

<sup>10</sup> LICADHO. Cambodia's Concessions. [https://www.licadho-cambodia.org/land\\_concessions/](https://www.licadho-cambodia.org/land_concessions/)

<sup>11</sup> As above.



## Map of Cambodian ELCs, by Country of Origin



### 3.2 Cambodia

Companies registered in Cambodia hold the largest share of Economic Land Concessions (41.9% of the total), and they are spread throughout the country. Some of the largest ELCs in Cambodia belong to this category. Examples include: an ELC held by *Pheapimex*, which spans 333 327 hectares (the single largest in the country) and produces multiple crops; and one owned by *Think Biotech*, spanning 34 000 hectares and producing timber.

### 3.3 Vietnam

Vietnamese-owned ELCs are concentrated in the North-Central and North-Eastern parts of the country. Some of the largest include: the one owned by *Rama Khmer International*, 20 000 hectares wide, producing rubber; and one belonging to *Dai Dong Duong Commercial Joint Stock*, encompassing 9 380 hectares. Of note, several Vietnam-held ELCs are part of larger conglomerates – such as the Vietnam Rubber Group, and Hoang Anh Gia Lai Group (HAGL). Taken together, the individual ELC holding companies under Vietnam Rubber Group hold well over the 10,000-ha permitted by the 2001 Land Law, and which is reiterated in the 2005 Sub-Decree on Economic Land Concessions.

### 3.4 China

Chinese-held ELCs are concentrated in the South-Western and North-Eastern parts of the country, with most of the agricultural ELCs being in the latter. The largest seems to be controversial *Union Development Group* concession, of 36 000 hectares, aimed at promoting tourism in Koh Kong province. The second largest one is owned by *Siemon Agriculture Comprehensive Development*, 26 990 hectares wide and producing timber.

### 3.5 ELCs by Province

As we can see from the map above and the table below, ELC land is not evenly distributed across the country. The latest data available shows that nearly two thirds of this land are concentrated in five provinces:<sup>12</sup> Kratie, Pursat, Monduliri, Preah Vihear and Ratanakiri.

#### ELCs by Province (in Order of Land Size)

Province	Granted ELCs	ELC Land Size (ha)	% of Total ELC Land Area
Kratie	54	277 600	18.1%
Pursat	4	244 032	15.9%
Monduliri	28	177 745	11.6%
Preah Vihear	23	143 811	9.4%
Ratanakiri	27	139 572	9.1%
Stung Treng	18	116 537	7.6%
Kampong Thom	28	101 102	6.6%
Kampong Speu	18	83 015	5.4%
Oddar Meanchey	15	56 586	3.7%
Siem Reap	10	49 439	3.2%
Koh Kong	10	46 383	3.0%
Kampot	4	20 904	1.4%
Tboung Khmom	7	19 281	1.3%
Svay Rieng	4	14 761	1.0%
Sihanoukville	6	14 682	1.0%
Banteay Meanchey	6	12 165	0.8%
Kampong Cham	3	10 545	0.7%
Battambang	2	4 616	0.3%

### 3.6 Creditors

At this stage of the research and due to the nature of the assignment, it is difficult to get access to comprehensive information detailing the financiers of cross border investments in agriculture in Cambodia, particularly in the case of private banks who are unwilling to share these confidential details.

For now, we have identified the role of international finance institutions, such as the World Bank and its sister organisation, the International Finance Corporation (IFC). The World Bank is currently implementing a four-year project with local agricultural exporters to improve competitiveness, build an enabling environment for

<sup>12</sup> Oxfam International. (2019). Foreign Direct Investment in Agribusiness in Cambodia. [https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file\\_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf](https://cng-cdn.oxfam.org/cambodia.oxfam.org/s3fs-public/file_attachments/Foreign%20Direct%20Investment%20in%20Agriculture.pdf)

the agribusiness sector, and facilitate more and higher value agricultural exports.<sup>13</sup> The IFC is financing Cambodian banks and microfinance institutions to lend to hundreds of thousands of SMEs, as well as fulfill an advisory role on various technical issues.<sup>14</sup>

## 4 Company Case Study

We selected Hoang Anh Gia Lai as our case study since the company has been at the centre of several controversies in Cambodia. Due to the well-publicised case, and the nature of HAGL as a publicly listed company, it also provides the easiest access to information regarding its financial operations.



### 4.1 HAGL: Summary

Hoang Anh Gia Lai Group (HAGL) is a diversified company headquartered in Pleiku, Vietnam. From a small furniture producer, the company diversified into other industries such as rubber, Real estate, mining, and energy. The company gained visibility by financing a professional football club (Hoang Anh Gia Lai Club). The firm claims to be Vietnam's largest property developer in 2010 and the second largest in 2011 (behind Vingroup). It has also grown significantly outside of Vietnam, with investments of around US \$ 1 billion in Laos, hundreds of US \$ millions in Myanmar, US \$ 100 million in Cambodia and tens of US \$ millions in Thailand. HAGL was registered as a joint stock company in 2006. The company is listed on the Saigon stock exchange.<sup>15</sup>

In Cambodia, HAGL has 6 subsidiaries in Cambodia, that are managing agrobusiness operations (the group has 16 agrobusiness subsidiaries in total). A subsidiary is specially allocated to a plantation, all located in the province of Ratanakiri. Out of the 6 subsidiaries, 4 are in operation. The activities of HAGL in Cambodia are exclusively dedicated to rubber plantations.

### 4.2 HAGL In the Press

HAGL has been at the centre of controversies in Cambodia. In May 2013, the company was accused by a natural resource NGO of illegally seizing pieces of land and committing rights abuses in the process. The company dismissed the accusations, citing its efforts in support of local communities in areas where it operates its plantations.<sup>16</sup>

Indigenous communities in affected areas from Ratanakiri province filed complaints to the relevant authority, the Compliance Advisor Ombudsman (CAO) of the IFC, for the first time in January 2014. In the complaint, it was cited how the IFC itself invested indirectly in the alleged wrongdoing company - HAGL - by holding private

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<sup>13</sup> World Bank. (2019). Cambodia Agricultural Sector Diversification Project. <https://projects.worldbank.org/en/projects-operations/project-detail/P163264?lang=en>

<sup>14</sup> IFC. IFC in Cambodia. [https://www.ifc.org/wps/wcm/connect/region\\_ext\\_content/ifc\\_external\\_corporate\\_site/east+asia+and+the+pacific/countries/ifc-in-cambodia](https://www.ifc.org/wps/wcm/connect/region_ext_content/ifc_external_corporate_site/east+asia+and+the+pacific/countries/ifc-in-cambodia)

<sup>15</sup> HAGL Agrico. Annual Report 2018. [https://haagrico.com.vn/images/2019/07/hng\\_2018\\_annual\\_report.pdf](https://haagrico.com.vn/images/2019/07/hng_2018_annual_report.pdf)

<sup>16</sup> Reuters. Vietnam rubber firms illegally take land in Cambodia, Laos, group says <https://www.reuters.com/article/vietnam-rubber-land/vietnam-rubber-firms-illegally-take-land-in-cambodia-laos-group-says-idUSL3N0DQ2T520130513>

equity through a Vietnamese fund, despite HAGL’s alleged breach of international and Cambodian laws, and IFC’s own internal social and environmental safeguard policies.<sup>17</sup>

After years of mediations with mixed results, a second complaint to the CAO was filed in 2019, citing new data of the IFC’s financial ties with HAGL. This company has in the meantime unilaterally withdrawn from the mediation process with local communities.<sup>18</sup>

More recently, in March 2020, during the coronavirus crisis, HAGL allegedly carried out further sweeping clearances of land earmarked for return to local communities through a government-led land demarcation process.<sup>19</sup>

### 4.3 Relations with Banks in Cambodia

HAGL received loans from Sacombank, a Vietnamese bank with a subsidiary in Cambodia. The first is a long-term loan of 40,633,990,000 VND, or US \$ 1.74 million, at an interest rate of 9%. The second is a short-term loan of 18,962,528,000 VND, or US \$ 814,000, also at an interest rate of 9%.

The purpose of the long-term loan is to finance the following two projects:

<p><b>Project 1</b> at Talao, Ward, Ouchum District, Ratanakiri, Province, Cambodia</p> <p>CRD, 7 591 hectares, rubber</p> <p>Heng Brother, 2 361 hectares, rubber</p>
<p><b>Project 2</b> at Nhang Ward, Andong Meas, District, Ratanakiri Province, Cambodia; owned by Hoang Anh, Oyadav Co., Ltd.</p> <p>Hoang Anh Oyadav, 9 000 hectares, rubber</p> <p>Hoang Andong Meas, 9 775 hectares, rubber</p>

Sacombank does not currently indicate any strategy regarding a policy to reduce the negative impacts of its loans on local communities and the environment. There is just a short statement (very marketing oriented) about the company vision and core values. Nevertheless, as a member of the Cambodian Association of Banks in Cambodia (ABC), Sacombank would have been a signatory of the ABC Sustainable Finance Principles, launched on March 29, 2019<sup>20</sup>, and supported by the IFC.

Dragon Capital Group holds a 5.5% stake in the Vietnamese company Hoang Anh Gia Lai (HAGL), which was mentioned in NGOs’ reports to describe the financial structure of HAGL. Dragon Capital has implemented a CSR policy that relies on only a few principles: Exclusion list activities, and Active ownership.

<sup>17</sup> Inclusive Development International. Cambodia: Hoang Anh Gia Lai Rubber Plantations.

<https://www.inclusivedevelopment.net/campaign/cambodia-rubber-land-grabs/>

<sup>18</sup> As above.

<sup>19</sup> Inclusive Development International. Vietnamese Agribusiness Giant HAGL Destroys Indigenous Lands.

<https://www.inclusivedevelopment.net/vietnamese-agribusiness-giant-destroys-indigenous-lands/>

<sup>20</sup> ABC. (2019). The Association of Banks in Cambodia Sustainable Finance Principles.

<https://www.sustainablebankingnetwork.org/upload/file/2019/0531/1559290438713939.pdf>

## 4.4 Initial Attempts at CSR Policies

HAGL itself has implemented a sustainable development strategy. This is described in the 18-page HAGL “Sustainable Development Report”, which was published in November 2014. This report is only available in English, which is perhaps telling of its expected readership. In addition, HAGL details its activities relating to CSR in its annual corporate reports. HAGL must publish these reports as a requirement of their listing on the Saigon Stock Exchange. The 2019 annual report has 5 pages upon the sustainable development strategy, but there is no information regarding specific actions in Cambodia.

That said, HAGL has indeed made attempts to mitigate against the impacts of its investment activities in Cambodia. Efforts include infrastructure investments, power systems, wells, housing for employees, the establishment of an Internal Environment Department, and obtaining Bureau Veritas certification. In addition, the company returned 10,000 ha of undeveloped land to indigenous communities and agreed to limit its use of chemical products (amongst other conditions). These agreements were made during the 2015 mediation process overseen by the IFCs Compliance Ombudsman (CAO).

## 4.5 Summary of Impact and Significance

In addition to the information above, we have provided a summary table of HAGL’s impact on the local community and environment, both positive and negative. Some of this information was retrieved from the company’s own published report of sustainability activities, with other information coming from third parties.

### Summary Table of Impacts

Positive	Negative
<p><b>Medical treatment<sup>21</sup></b></p> <ul style="list-style-type: none"> <li>- HAGL has organised medical examination and treatment, medicine delivery and donation periodic gifts to 18 communities in Ratanakiri province with the support of Bệnh viện Đại Học Y Dược hospital in Pleiku.</li> <li>- The total number of people that were examined and received medicine is 4,927 people, of which 140 cases of blurred vision and some in other cases of surgery.</li> <li>- A HAGL team examined and provided free medicine to 1,872 people and diagnosed 52 blurred vision cases that needed a special treatment in Vietnam.</li> </ul> <p><b>Food and financial support<sup>24</sup></b></p> <ul style="list-style-type: none"> <li>- Via the Compliance Advisor Ombudsman (CAO), a member of the World Bank Group and in cooperation with NGOs, HAGL delivered</li> </ul>	<p><b>Land rights<sup>22</sup></b></p> <ul style="list-style-type: none"> <li>- HAGL’s concessions in Cambodia spanned more 50,000 hectares: about five times the legal limit for a landholding company in the country.</li> <li>- A part of the 742-hectare land in the northern province of Ratanakiri was reportedly cleared in March 2020. The international media have reported that HAGL had bulldozed land in Cambodia) that had been earmarked for return to indigenous communities.</li> <li>- HAGL unilaterally withdrew from the Compliance Advisor Ombudsman process, which is an independent accountability mechanism for IFC and MIGA, CAO helps address the concerns of communities who believe they are affected by IFC and MIGA projects.</li> </ul>

<sup>21</sup> HAGL Agrico. Annual Report 2018. [https://haagrico.com.vn/images/2019/07/hng\\_2018\\_annual\\_report.pdf](https://haagrico.com.vn/images/2019/07/hng_2018_annual_report.pdf)

<sup>22</sup> Equitable Cambodia. (2020). <https://news.mongabay.com/2020/06/vietnamese-agribusiness-firm-hagl-accused-of-clearing-indigenous-land-in-cambodia/>; South China Morning Post. (2020). <https://www.scmp.com/week-asia/health-environment/article/3086758/vietnam-firm-world-bank-links-accused-bulldozing>; Global Witness.

<sup>24</sup> HAGL Agrico. Annual Report 2018. [https://haagrico.com.vn/images/2019/07/hng\\_2018\\_annual\\_report.pdf](https://haagrico.com.vn/images/2019/07/hng_2018_annual_report.pdf)

<p>400kg of beef meat and cash to each village around the project area to support their religious spirit ceremony for a total amount of USD 23,800.</p> <ul style="list-style-type: none"> <li>- In April 2015, HAGL donated 50kg of rice and one box of instant noodles to 349 households.</li> <li>- When HALG provided medical treatment to 1,872 people, the company also gave 50 kg of rice, 2 kg of sugar and 2 kg of salt per person.</li> </ul> <p><b>Infrastructure and Environment<sup>25</sup></b></p> <ul style="list-style-type: none"> <li>- In 2016, HAGL pledged to build 3,000 houses for workers to live and work right at the project sites with the total value of USD 3,500.</li> <li>- HAGL contributed financially to build the Bati National Football Academy in Takeo Province with a total amount of USD 4 million.</li> <li>- In 2014, HAGL applied the ISO 9001:2008 quality management system to its oil palm project in Cambodia.</li> </ul>	<ul style="list-style-type: none"> <li>- According to Global Witness, HAGL exceeds the 10,000ha legal threshold for concession holdings in Cambodia by hiding their beneficial ownership behind complex layers of shell companies.</li> <li>- HAGL denied ownership of approximately 28,000ha concessions inside Lumphat Wildlife Sanctuary and Virachey National Park despite evidence collected by Global Witness.</li> </ul> <p><b>Environment<sup>23</sup></b></p> <ul style="list-style-type: none"> <li>- Habitat loss, and loss of biodiversity in HAGL concession areas as unavoidable impact of converting primary forest into cropland.</li> </ul>
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Although it is hard to reconstruct the exact details of the events surrounding HAGL’s involvement in Cambodia, it is certain that the complaints against the company highlight recurrent challenges in the implementation of agricultural investments in the Kingdom. The IFC’s alleged role in funding HAGL sheds the spotlight on one certain aspect of such bad practices, which is the level of exposure of financial institutions (FIs) to E&S risk in their investment portfolios, particularly when engaging in transactions with major agribusiness companies or ELC holders.

As a counter to this, we draw inspiration from good practices in the financial sector to highlight some potential solutions to this issue.

## 5 Findings and Analysis

### 5.1 Role of Finance in Reducing ESG Issues in Agriculture

In parallel to the creation of the Sustainable Development Goals and their subsequent integration into the development strategies of many leading international development institutions, during the last decade the concept of sustainable finance (and its implications for the safeguarding of the environment, climate and resolution/mitigation of ESG issues) has gained ground. Sustainable finance is slowly becoming a mainstream component of global development practices. As such, these practices are paving the way for sustainability to be mainstreamed in the financing of agricultural investment.

<sup>23</sup> Equitable Cambodia. (2020). <https://news.mongabay.com/2020/06/vietnamese-agribusiness-firm-hagl-accused-of-clearing-indigenous-land-in-cambodia/>; South China Morning Post. (2020). <https://www.scmp.com/week-asia/health-environment/article/3086758/vietnam-firm-world-bank-links-accused-bulldozing>; Global Witness.

<sup>25</sup> HAGL Agrico. Annual Report 2018. [https://haagrico.com.vn/images/2019/07/hng\\_2018\\_annual\\_report.pdf](https://haagrico.com.vn/images/2019/07/hng_2018_annual_report.pdf)



## 5.1.1 Overview

A wide variety of stakeholders are represented in the pool of financial good practices worldwide, including international development agencies, FIs and financial sectoral associations. There also several types of good practices which we have documented, including declarations of commitment, management guidelines, and financial instruments, as shown in the table below. For this report, we briefly describe in turn some of the most relevant categories of such practices.

### Overview of Practices

1. Commitments
2. Frameworks and Regulations
3. Guidelines and Recommendations
4. Instruments
5. Ad-Hoc Bodies
6. Certifications

## 5.1.2 Commitments

The following are the most relevant commitments made by stakeholders operating in international finance, agriculture, and agribusiness.

### Overview of Financial Good Practices, Declarations/Commitments

Name	Initiator(s)
UNEP Statement of Commitment by FIs on Sustainable Development <sup>26</sup>	UNEP FI
Principles for Responsible Banking (PRB) <sup>27</sup>	United Nations Environmental Programme Finance Initiative (UNEP FI)
Principles for Responsible Investment (PRI) <sup>28</sup>	United Nations-sponsored PRI (leading global FIs)
Equator Principles (EPs) <sup>29</sup>	EP Association
Responsible Agricultural Investment (RAI) Principles <sup>30</sup>	Committee on World Food Security (CFS)
Principles for Responsible Agricultural Investment (PRAI) <sup>31</sup>	UNCTAD, FAO, IFAD, World Bank
Food and Agriculture Business Principles <sup>32</sup>	UN Global Compact

<sup>26</sup> UNEP FI. (1992). Statement of Commitment by Financial Institutions on Sustainable Development. <https://www.unepfi.org/about/unep-fi-statement/>

<sup>27</sup> UNEP FI. (2019). Principles for Responsible Banking. <https://www.unepfi.org/banking/bankingprinciples/>

<sup>28</sup> PRI. (2006). Principles for Responsible Investment. <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

<sup>29</sup> EP Association. (2019). Equator Principles. <https://equator-principles.com/about/>

<sup>30</sup> Committee on World Food Security. (2014). Principles for Responsible Investment in Agriculture and Food Systems. <http://www.fao.org/3/au866e.pdf>

<sup>31</sup> UNCTAD. (2010). Principles for Responsible Agricultural Investment. <https://unctad.org/en/Pages/DIAE/G-20/PRAI.aspx>

<sup>32</sup> UN Global Compact. (2014). <https://www.unglobalcompact.org/take-action/action/food>

The *Statement of Commitment by Financial Institutions (FIs)* for the United Nations Environmental Programme (UNEP) Financial Initiative (FI) is the backbone of UNEP FI, an international initiative involving more than 300 FIs and 100 supporting institutions. The Statement recognises the leading role that financial sector can play in encouraging sustainable development worldwide, by promoting sustainability management in bank decision-making.

More than 185 banks worldwide have signed the *6 Principles for Responsible Banking (PRB)*, which provide a framework to create a sustainable banking system across all business areas.

Similarly, the *6 Principles of Responsible Investment* are a voluntary set of investment principles that offer options for investors to incorporate actions to integrate ESG issues in their business transactions.

Currently adopted by 110 FIs across 38 countries, the *10 Equator Principles* are a risk management framework to determine, assess and manage E&S risk in financial projects, to provide a minimum standard of due diligence and monitoring in risk management in the sector.

Three initiatives are particularly related to investments in agriculture and agribusiness.

The *10 Responsible Agricultural Investment (RAI) Principles* have been established by the Committee on Food Security. Intended for investors in agriculture, especially in developing countries, the principles include commitments to respect land tenure, conserve and sustainably manage natural resources, promote inclusive and transparent governance, and promote accountability of investors in the sector.

The *7 Principles for Responsible Agricultural Investment (PRAI)*, developed jointly by major international development organisations, have also been set up to promote sustainable agriculture, by offering a framework for several international stakeholders to promote sustainable agricultural practices, particularly regarding the rule of law, generating equitable impacts and shared value with local communities, promoting transparency of contracts, and mitigating environmental and social risks.

Finally, the UN-established *Food and Agriculture Business Principles* encourage companies operating and investing in these sectors to embrace a set of good governance principles, including a pledge to be environmentally responsible, share the created value with all members of the agricultural value chain, and be accountable for their business decisions.

#### **Why are commitments relevant to financial good practices in Cambodian agribusiness investment?**

In being adopted by more and more development and economic stakeholders around the world and in Asia, international commitments to promote sustainable and good financial practices. In turn they help create positive pressure to change from actors that may be lagging behind. International pledges by FIs and international financial sectoral associations set good examples for practitioners in specific countries, including Cambodia, to adopt. Although commitments and principles offer little in terms of immediate practical change in agribusiness investments, they help “lock down” policy stakeholders into committing to future reform, which is a necessary first step. Commitments are relevant to all Cambodian stakeholders, but particularly to FIs, financial sectoral associations, investors and companies in the agricultural/agribusiness value chain.

### **5.1.3 Frameworks and Regulations**

Frameworks and regulations are legal and operational structures that define how stakeholders in the financial sector can combine the promotion of sustainable outcomes within the scope of their normal operations.



## Overview of Financial Good Practices, Frameworks and Regulations

Name	Initiator(s)
Sustainability Framework: <sup>33</sup> <ul style="list-style-type: none"> <li>- Policy on Environmental and Social Sustainability</li> <li>- Performance Standards</li> <li>- Access to Information Policy</li> </ul>	International Finance Corporation (IFC)
Environmental and Social Framework: <sup>34</sup> <ul style="list-style-type: none"> <li>- Environmental and Social Policy for Investment Project Financing</li> <li>- Environmental and Social Standards</li> <li>- Bank Directives on addressing risks and Impacts on environment and disadvantaged groups</li> </ul>	World Bank
National financial sector regulations, sectoral and bank-specific <sup>35</sup>	National financial sectoral associations, FIs

The International Finance Corporation's (IFC) *Sustainability Framework* helps client signatories among FIs to do business in a more sustainable way. As part of the framework, the 8 Performance Standards are a global benchmark for E&S risk management in the private sector, and help signatories align their practices with certain minimum requirements of good governance. Some of the Standards worth mentioning are number 1 on Risk Management, number 4 on the protection of Communities, number 5 on Land Resettlement issues, number 6 on the protection of Biodiversity, and number 7 on the protection of Indigenous Peoples.

Similarly, the World Bank's *Environmental and Social Framework* enables the group and its borrowers to manage E&S risk by offering broad and systemic coverage in areas such as transparency, accountability and in establishing grievance mechanisms for alleged wrongdoings. As part of the framework, 10 Environmental and Social Standards establish conditions for borrowers, on issues such E&S Risk Management, Community Health and Safety, Land Acquisition and Resettlement, Biodiversity Conservation, Indigenous Peoples, Stakeholder Engagement, and Information Disclosure.

Best practices are also emerging from FIs and financial sectoral associations across the world. Selected examples are included further down in the study.

### Why are frameworks and regulations relevant to financial good practices in Cambodian agribusiness investment?

Frameworks and regulations are useful for countries wishing to reform their financial practices (such as Cambodia), as a follow up from adhering to ideological principles. These tools provide legal and managerial structures that help make initial initiatives to reform more consistent, and are adopted by stakeholders at several levels, ranging from government, national financial regulators, financial sectoral associations, and FIs

<sup>33</sup> IFC. (2006). Sustainability Framework. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/sustainability+framework](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/sustainability+framework)

<sup>34</sup> World Bank. (2018). Environmental and Social Framework. <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework>

<sup>35</sup> SBN. (2019). Global Progress Report. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn\\_2019+globalprogressreport](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport)

themselves. By giving a legal and managerial structure to financial reform, these stakeholders consolidate progress and establish the foundations for more specific action plans.

#### 5.1.4 Guidelines and Recommendations

Guidelines and Recommendations, issued by international development organisations, donors and advisory bodies, are intended to facilitate the transition of FIs to more sustainable business models.

##### Overview of Financial Good Practices, Guidelines/Recommendations

Name	Initiator(s)
Environmental, Health Safety Guidelines (particularly those on Agribusiness/Food Production) <sup>36</sup>	World Bank/IFC
Guidance Document <sup>37</sup> (implementation steps) of UNEP FI PRB	UNEP FI
Guide to Banking and Sustainability <sup>38</sup>	UNEP FI
Final Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) <sup>39</sup>	TCFD
Voluntary Guidelines on the Governance of Tenure <sup>40</sup>	FAO
Operational Guidelines for Responsible Land-Based Investment <sup>41</sup>	USAID Green Invest Asia

The IFC's *Environmental, Health, and Safety (EHS) Guidelines* are both general and industry-specific examples of international industry best practices. Borrowers from the institution are required to adopt these guidelines before entering transactions.

The UNEP FI's *Guidance Document* complements the initiative's concerted effort to promote sustainable finance, by presenting best examples and implementation steps for FI signatories of the UNEP FI. Also, the *Guide to Banking and Sustainability* provides banks with an awareness-raising, integration, and outreach tool to help create the ideal sustainable bank.

The Financial Stability Board's advisory report *Recommendations from the Task Force on Climate-related Financial Disclosures* provides financial sector organisations with tools to provide better transparency and disclosure mechanisms for green financial transactions.

The Food Agricultural Organization's *Voluntary Guidelines on Governance of Tenure* (VGGT) are reference standards and principles intended to help operators in agriculture and agribusiness govern land tenure responsibly, by mitigating potential negative impacts on the environmental and local communities.

<sup>36</sup> IFC. (2007). Environmental, Health, and Safety Guidelines.

[https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/ehs-guidelines](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines)

<sup>37</sup> UNEP FI. (2019). Principles for Responsible Banking Guidance Document. <https://www.unepfi.org/wordpress/wp-content/uploads/2019/09/PRB-Guidance-Document-Final-19092019.pdf>

<sup>38</sup> UNEP FI. (2016). Guide to Banking and Sustainability. <https://www.unepfi.org/publications/banking-publications/guide-to-banking-and-sustainability-2/>

<sup>39</sup> Task Force on Climate-related Financial Disclosures. (2017). <https://www.fsb-tcfd.org/>

<sup>40</sup> FAO. (2012). Voluntary Guidelines on Tenure. <http://www.fao.org/tenure/voluntary-guidelines/en/>

<sup>41</sup> USAID. Green Invest Asia. <https://greeninvestasia.com/>

USAID’s *Green Invest Asia* project connects investors and FIs with sustainable projects from agricultural and forestry companies in ASEAN countries, including Cambodia, thus helping them increase their ESG lending portfolio. The project has mobilised more than 400 US \$ million in private finance to help fund projects related to natural products, including rubber and timber. USAID provides a range of services to investors, including technical assistance on land-use ESG management.

### Why are guidelines and recommendations relevant to financial good practices in Cambodian agribusiness investment?

Guidelines and recommendations are meant to accompany financial stakeholders into adjusting and improving the effectiveness of their reform initiatives, through continuous learning processes. The mentioned tools cover all major sensitive aspects of agribusiness investment, from E&S impacts to transparency of information, and are meant primarily for investors, FIs, financial sectoral associations, and all members of the agricultural/agribusiness value chain.

### 5.1.5 Instruments

Several instruments, financial and managerial, have been created to facilitate the promotion of sustainable finance and the mitigation of ESG risks.

#### Overview of Financial Good Practices, Instruments

Name	Initiator(s)
Climate Investment Funds <sup>42</sup>	World Bank
ESG Bonds <sup>43</sup>	IFC
Global Map of Environmental and Social Risks in Agro-Commodity Production (GMAP) <sup>44</sup>	IFC
Environmental and Social Management System (ESMS) Toolkit <sup>45</sup>	IFC
Sustainability indexes <sup>46</sup>	Business sectoral associations, private markets
Rating agencies <sup>47</sup>	Business sectoral associations, private markets

The World Bank has set up an US \$ 8 billion *Climate Investment Fund*, with contributions by 14 donor countries. The fund enables investments in 72 countries in sustainable energy and environment conservation projects, particularly in forest management. The *Forest Investment Program* (FIP), a sub-component of the fund, is implemented in 23 countries, aiming to conserve forest land. Currently implemented in Cambodia, the FIP operates in synergy with the Cambodian government’s environmental strategies: *the Climate Change Strategic*

<sup>42</sup> Climate Investment Funds. <https://www.climateinvestmentfunds.org/>

<sup>43</sup> IFC. Sustainable Bonds. [https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new/investor+relations/ifc+a+sustainable+bond+is+user](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ifc+a+sustainable+bond+is+user)

<sup>44</sup> IFC. GMAP. <https://gmaptool.org/>

<sup>45</sup> IFC. ESMS Toolkit. [https://www.ifc.org/wps/wcm/connect/6147cbba-efe8-4879-ba77-c7af63bede7c/ESMS\\_Toolkit\\_General.pdf?MOD=AJPERES&CVID=I50s0OZ](https://www.ifc.org/wps/wcm/connect/6147cbba-efe8-4879-ba77-c7af63bede7c/ESMS_Toolkit_General.pdf?MOD=AJPERES&CVID=I50s0OZ)

<sup>46</sup> UNEP FI. (2011). Guide to Banking and Sustainability (1<sup>st</sup> Edition).

<sup>47</sup> As above.

Plan 2014-2023, the National Strategic Plan on Green Growth 2013-2030, and the REDD+ national implementation strategy.

The IFC has set up three initiatives. ESG bonds, or *Socially Responsible Investments*, are issued by the IFC to borrowers, aiming to make economic growth sustainable and inclusive. Borrowers must agree to the Bond’s sustainability principles. The *Global Map of Environmental and Social Risks in Agro-Commodity Production* (GMAP) is an online tool to ensure that agro-commodity production chains align with the IFC Performance Standards on Environmental and Social Sustainability. The map allows users to conduct quick environmental and social due diligence with financial projects. The *Environmental and Social Management System (ESMS) Toolkit* contains implementation steps for companies wishing to set up an ESMS.

Private financial markets have created sustainability indexes and ratings for companies, allowing investors an overview of corporate sustainability efforts and helping inform socially responsible business decisions.

### Why are instruments relevant to financial good practices in Cambodian agribusiness investment?

Instruments serve two purposes to improve good practices in the Cambodian agribusiness investment sector: they mobilise financial resources for sustainable agriculture and agribusiness projects, and they serve as knowledge-sharing and awareness-raising tools for all major stakeholders in the sector. As learning tools, instruments serve a similar function to guidelines and recommendations.

#### 5.1.6 Ad-Hoc Bodies

Ad-hoc bodies, such as organisations, networks or programmes, serve various functions in promoting sustainable finance practices, including knowledge sharing, research, and analysis.

#### Overview of Financial Good Practices, Ad-Hoc Bodies

Name	Initiator(s)
Sustainable Banking Network (SBN) <sup>48</sup>	IFC
Natural Capital Finance Alliance (NCFA) <sup>49</sup>	UNEP FI, Global Canopy Programme (NGO)
Green Finance Platform <sup>50</sup>	Global multi-stakeholder network of organisations and experts
Global Green Finance Leadership Program (GFLP) <sup>51</sup>	Regional (Asia-centred) multi-stakeholder network of organisations and experts

The *Sustainable Banking Network* (SBN) is a voluntary global community of financial sector regulatory agencies and banking associations, mostly from developing countries. Members are committed to improve ESG risk management (including better disclosure of risk activities) in FIs. The SBN is a platform for knowledge sharing and capacity building.

<sup>48</sup> Sustainable Banking Network (SBN). [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn)

<sup>49</sup> Natural Capital Finance Alliance. <https://naturalcapital.finance/>

<sup>50</sup> Green Finance Platform. <https://greenfinanceplatform.org/>

<sup>51</sup> Green Finance Leadership Program. <http://www.gflp.org.cn/>

The *Natural Capital Finance Alliance* is a global finance initiative to integrate natural capital, including the mitigation of ESG issues, into financial products and services, and to work for the inclusion of natural capital considerations in financial accounting, disclosure, and reporting.

The *Green Finance Platform (GFP)* and the *Green Finance Leadership Program (GFLP)* are both networks of organisations and experts that address major knowledge gaps in sustainable finance and provide knowledge-sharing platforms, with the former being focused on addressing sustainability issues in the East and South-East Asian region.

### Why are ad-hoc bodies relevant to financial good practices in Cambodian agribusiness investment?

In the Cambodian context, ad-hoc bodies provide venues for Cambodian practitioners in the sector, particularly FIs, financial sectoral associations and NGOs, to continuously monitor and report the impact of agribusiness investments on the local environment. They also promote the exchange of information from other stakeholders around the world.

## 5.1.7 Certifications

Certifications are meant for members of product value chains to ensure that all its components follow sustainable practices.

### Overview of Financial Good Practices, Certifications

Name	Categor(ies)
Forest Stewardship Council (FSC) <sup>52</sup>	Sustainable forest management
Vietnam Forest Certification System (VFCS) <sup>53</sup>	Sustainable forest management
Rainforest Alliance <sup>54</sup>	Sustainable forest management
ISO families 14001 <sup>55</sup> , 31000 <sup>56</sup> , 26000 <sup>57</sup>	Environmental management, risk management, social responsibility

The first three are examples of product certifications that ensure that value chain members maintain and protect forest land, and refrain from illegal logging or land clearing. The *Vietnam Forest Certification System (VFCS)* is inspired by the *Forest Stewardship Council* certification and is an innovating practice in South East Asia, one of the first local certification initiatives in sustainable forest management. The three ISO categories certify companies on three aspects of their environmental and social commitment.

### Why are certifications relevant to financial good practices in Cambodian agribusiness investment?

Certifying sustainable products is one way to increase consumer awareness in Cambodia about the impact consumer choices and E&S bad practices has on the local environment. They can be a huge opportunity for

<sup>52</sup> Forest Stewardship Council. <https://fsc.org/en>

<sup>53</sup> Vietnam Forest Certification System. <https://www.pefc.org/discover-pefc/our-pefc-members/national-members/viet-nam-forest-certification-system-vfcs>

<sup>54</sup> Rainforest Alliance. <https://www.rainforest-alliance.org/>

<sup>55</sup> International Organization for Standards (ISO). ISO 14 001. <https://www.iso.org/iso-14001-environmental-management.html>

<sup>56</sup> International Organization for Standards (ISO). ISO 31 000. <https://www.iso.org/iso-31000-risk-management.html>

<sup>57</sup> International Organization for Standards (ISO). ISO 26 000. <https://www.iso.org/iso-26000-social-responsibility.html>

Cambodian-based companies in the agribusiness and agricultural sectors to align themselves with sustainable branding strategies worldwide and drive change for a socially responsible way of doing business in Cambodia.

**5.1.8 Best Practices from Financial Institutions**

**UBS – Establishing a Comprehensive E&S Framework**

Headquartered in Switzerland, UBS operates in 54 countries worldwide. The bank has established a comprehensive framework to prevent or manage E&S risks for itself and its clients.<sup>58</sup> The framework applies to all transactions, services, products and activities and, through it, the bank regularly reviews sensitive sectors and activities prone to E&S risks. Clients are assessed on their exposure to such risks, with their results being benchmarked against sector averages. Using this data, UBS can find new ways to improve the future portfolio. Also, advanced data analytics on companies associated with E&S risks are used by all staff members when entering a relationship with clients.



The Framework has identified certain areas of concern, including timber, where UBS does not operate or does so under strict criteria. UBS does not enter knowingly into transactions with clients who partake in environmental damage such as illegal logging or usage of fire for land clearance.

**Ecobank – Aligning E&S Risk Management with International Standards**

Ecobank is the leading pan-African bank, present in 36 countries on the continent. It is committed to promote sustainable practices, it has signed the Equator Principles, and it is an active member of UNEP FI. To implement the Equator Principles, the bank has developed a corporate Environmental and Social Policy, using international standards, including the IFC’s Performance Standards.<sup>59</sup>



The policy is being implemented through the bank’s own Environmental and Social Management System. Due diligence procedures are undertaken for several bank activities and sectors, including agribusiness. Environmental and Social Due Diligence (ESDD) is implemented as part of a multi-stage process in business transactions with clients, going from an initial screening phase, to classifying potential E&S risks, applying checklists and guidelines for due diligence, formulating E&S Action Plans, and continuous monitoring and reporting on the bank’s E&S risk and exposure.

**5.2 Best Practices from National Markets**

**China – Using KPIs to Drive Sustainability**

The former China Banking Regulatory Commission (CBRC), China’s leading financial regulator (now newly-established as the China Banking and Insurance Regulatory Commission, or CBIRC), established the Green Credit Implementation Key Performance Indicators in 2014, and required the 21 largest Chinese banks (representing a total of over



<sup>58</sup> SBN. (2019), Global Progress Report of the Sustainable Banking Network – Case Studies: Good Practices among Financial Institutions. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn\\_2019+globalprogressreport](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport)

<sup>59</sup> As above.

70% of the country’s banking assets) to submit self-evaluation reports against their progress on these KPIs annually.<sup>60</sup> The reports are verified by a third-party agency.

In the latest progress report from 2018, which shows a general improvement regarding compliance, a few KPIs stood out for the high levels of compliance, including: integrating E&S risks into compliance checks, including E&S pacts in loan agreements for certain clients, and training staff on knowing how to review E&S risks and seek support when needed.

### Indonesia – Standardising Sustainability Reporting

Indonesia’s financial sectoral regulator, Otoritas Jasa Keuangan (OJK), has required the 55 largest Indonesia banks to submit annual action plans, detailing their implementation of the sustainable finance initiative, and to prepare an annual sustainability report.<sup>61</sup>



### 5.2.1 Best Practices from Financial Regulators

#### Nepal – Providing Detailed Guidance on Expectations towards a E&S Policy and E&S Risk Management System

Nepal’s central bank, Rastra Bank, provides a full checklist for banks and other FIs for a sound E&S policy.<sup>62</sup> The checklist covers typical E&S risks, applicable standards, suggested steps for a full E&S process, and reporting templates. In summary, there are 8 steps for the full process, shown below:



- Step 1:** Exclusion List Screening (screening clients for risky activities)
- Step 2:** Loan Categorisation (into either Small Loan, Term Finance or Project Finance, each with different subsequent requirements)
- Step 3:** E&S Due Diligence (reviewing and checking client records in these areas)
- Step 4:** Generating E&S Risk Rating (based on the results of the previous checklist, as either Low, Medium or High)
- Step 5:** E&S Risk Management and Control (preparing E&S Risk Summary, drafting E&S Action Plans/Pacts attached to loan application)
- Step 6:** Escalation (if the E&S risk is Medium or High, the transaction will have to be escalated to a higher credit authority)
- Step 7:** E&S Risk Monitoring (Monitoring and reviewing the implementation of the required E&S measures)
- Step 8:** E&S Reporting (Reporting on E&S performance internally to senior management or externally to a credit authority)

<sup>60</sup> SBN. (2019), Global Progress Report of the Sustainable Banking Network – Case Studies: Good Practices among Financial Institutions. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn\\_2019+globalprogressreport](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport)

<sup>61</sup> As above.

<sup>62</sup> As above.



## Vietnam – Central Bank Directive to Disclose E&S Risk

The Vietnamese Central Bank (SBV) issued a 2015 Directive requiring FIs, among other things, to disclose information on their E&S risk management processes on a quarterly basis. A reporting template is also provided.<sup>63</sup>



### 5.3 Financial Good Practices in Cambodia

The spread of sustainable finance is at its infancy in Cambodia. The concept itself is new to most financial practitioners in the country, who lack the knowledge and skills to apply relevant financial sustainability guidelines and policies to their day-to-day operations. Therefore, the first challenge in promoting sustainable finance in Cambodia is building capacity of the Cambodian financial sector. This includes raising awareness of the key definitions and impacts of E&S Risk Management within the front-line workers, senior and junior management, as well as client relations staff in FIs.

#### ABC – Increasing Technical Capacity and Promoting Sustainable Finance Initiatives



**សហគមន៍ធនាគារកម្ពុជា**
  
 THE ASSOCIATION OF BANKS IN CAMBODIA

It is in this context of weak technical capacity that we should mention the case of the Association of Banks in Cambodia, or ABC. The association represents all areas of banking in Cambodia, and it is the main sectoral representative in the country.

The value of ABC’s action in promoting Cambodian sustainable finance has been two-fold: increasing technical capacity of Cambodian FIs and spearheading the promotion of sustainable finance initiatives in the sector.

ABC has garnered the support of the country’s main banks and carries out frequent capacity-building and training workshops to staff members from its FI network, aiming to increase local knowledge of international best practices and definitions. In doing so, ABC relies on its membership of the SBN. The SBN is the aforementioned international network of banking associations that promotes sustainable best practices worldwide. As an example of the benefits of this cross-border learning, the ABC has strived to increase local awareness of, and learn from the success of Mongolia’s financial sector. Mongolia’s FIs have now established clear definitions of sustainable financial products and services, and the ABC is now hoping to replicate this success in Cambodia.

The ABC has also launched its Cambodia Sustainable Finance Initiative (CSFI), with the support of development partners including USAID, and the cooperative partnership of the National Bank of Cambodia (NBC) and the Ministry of Environment (MoE).

The initiative aims to develop and strengthen finance sector safeguards and risk management standards related to social and environmental impacts potentially created through the private sector, taking into account the need to protect the country’s environment, and preserve its culture and way of life.

#### 5.3.1 Other Practices

Thanks notably to the pioneering efforts of the ABC, a growing number of Cambodian FIs are starting to imitate international trends in creating their own social and environmental policy frameworks and reporting

<sup>63</sup> SBN. (2019). Global Progress Report of the Sustainable Banking Network - Case Studies: Inspiring Practices from SBN Members.
   
[https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn\\_2019+globalprogressreport](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport)



templates to make their investment decisions more sustainable. Notable mentions are ACLEDA’s Environmental and Social Sustainability Report<sup>64</sup>, CIMB 2019 Sustainability Report<sup>65</sup>, and Sathapana Bank’s cited E&S risk management approach<sup>66</sup>.

**ACLEDA**

The bank has issued an online Environmental and Social Sustainability report, which breaks down the various ways it is implementing sustainable practices in its operations in Cambodia.

Quoting from the report, ACLEDA employs fulltime Environmental Officers, who are trained regularly to better coordinate the bank’s environmental activities. It provides loans to customers in the fields of biogas and solar energy. Environmental Performance Indicators have been set up internally to measure the company’s reduction of its environmental impact. The corporate social responsibility policy details ACLEDA’s staff recruitment practices, including on providing equal opportunities, ongoing professional training and personal benefits. Finally, ACLEDA’s positive impact on local communities is highlighted. For instance, in 2019 alone, the company provided 768 internships for local students. Also, voluntary blood donations were made by bank staff to the National Blood Transfusion Center, to help patients in emergency situations.



**Other**

On the government side, the future promulgation of Cambodia’s *Environment and Natural Resources Code* (ENR Code) is expected to break ground in several areas related to environmental protection, openness and accountability in the country, particularly regarding the conservation of land tenure and protection of forest areas<sup>67</sup>.

**5.3.2 Assessment**

While there is a vast literature on sustainable finance and its exemplary case studies around the world, it is harder to find country-specific assessments, especially regarding a relatively small country like Cambodia.

Our main desk source to evaluate Cambodia’s progress towards the implementation of sustainable finance principles is the *Country Progress Report Cambodia*, from October 2019, published by the Sustainable Banking Network.<sup>68</sup> The report is part of a wider, comparative assessment of achievements in selected developing countries by using a set of sustainable finance indicators. We were thus able not only to view the country’s progress as a standalone, but we could also compare it to some of its ASEAN neighbours: Lao PDR, Vietnam and Thailand.

The evaluation indicators represent the extent to which policy coverage has been achieved in Cambodia, regarding a specific set of sustainable finance principles and guidelines, from alignment with international

<sup>64</sup> ACLEDA. Environmental and Social Sustainability Report. [https://acledabank.com.kh/kh/eng/bp\\_sustainabilityreport](https://acledabank.com.kh/kh/eng/bp_sustainabilityreport)

<sup>65</sup> CIMB. (2019). Future Forward – Sustainability Report 2019. <https://www.cimb.com/content/dam/cimb/group/documents/investor-relations/annual-reports/2019/cimb-2019-sustainability-report.pdf>

<sup>66</sup> Sathapana Bank. Environmental and Social Sustainability. <https://www.sathapana.com.kh/about-sathapana/csr/the-purpose-of-ess/>

<sup>67</sup> Mekong Region Land Governance. (2019). Review, Comments and Recommendations on the Draft Environment and Natural Resources Code (Version 11) of Cambodia. <https://www.mrlg.org/publications/review-comments-and-recommendations-on-the-draft-environment-and-natural-resources-code-version-11-of-cambodia/>

<sup>68</sup> SBN. (2019). Country Progress Report – Cambodia. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn\\_2019+globalprogressreport](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport)

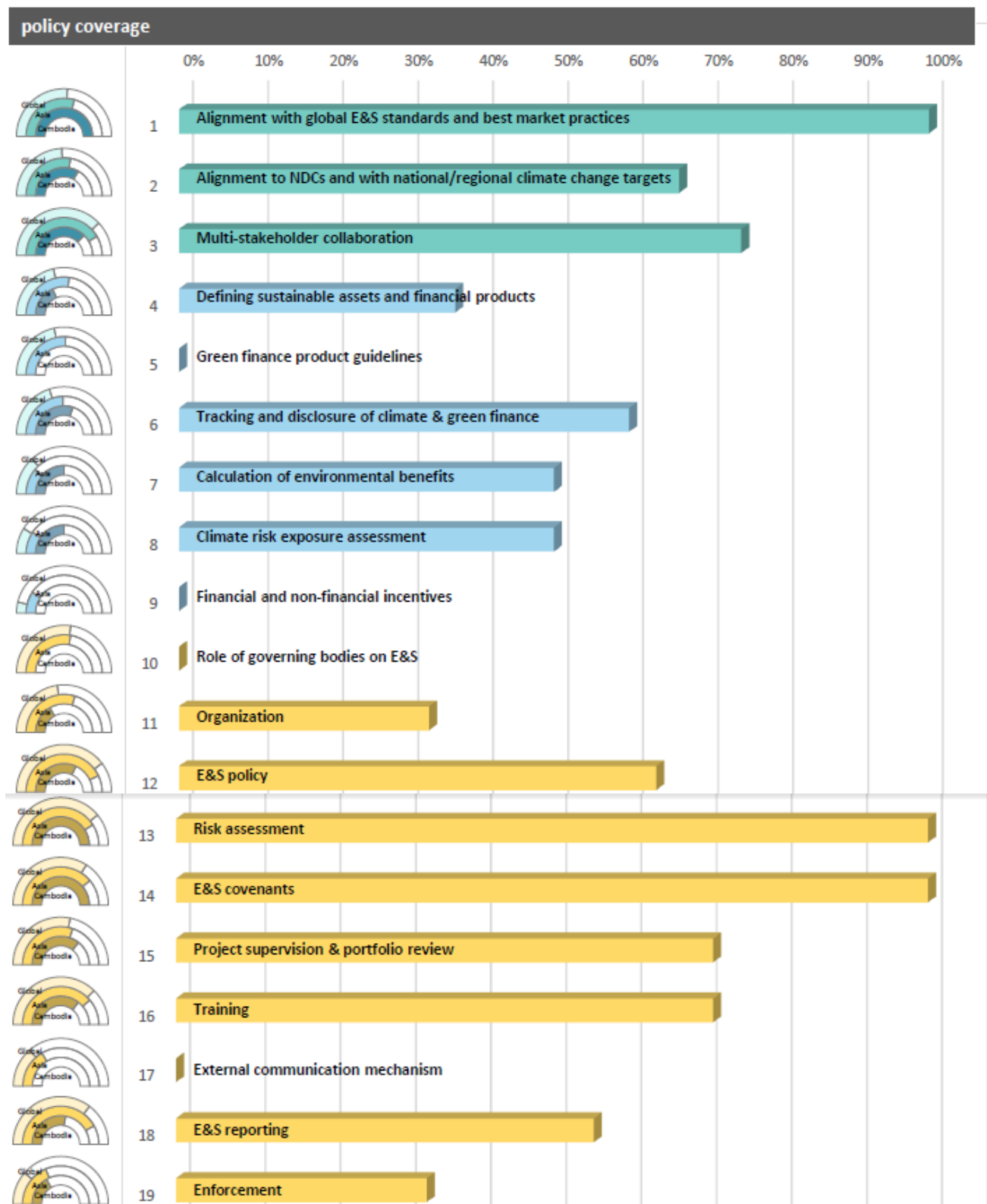
commitments to Environmental and Social (E&S) reporting. That is, the report measures how fully each aspect of sustainable finance has been integrated and mainstreamed into the country’s political and economic context, for example by being included in national legislation or in private bank official strategic documents. The potential range of policy coverage for each indicator is in percentage, from 0 to 100%. The indicators are grouped into 3 pillars: (I) Strategic Alignment, (II) Climate and Green Finance, (III) ESG Integration. The pillars are further broken down into sub-pillars. The full list of indicators is shown below.

### Overview of Sustainable Finance Indicators, SBN Country Progress Report Cambodia 2019

Pillar	Sub-Pillar	Indicator Number	Description
I – Strategic Alignment	<i>As in description.</i>	1	Alignment with Global E&S standards and best market practices
	<i>As in description.</i>	2	Alignment to NDCs and with national/regional climate change targets
	<i>As in description.</i>	3	Multi-stakeholder collaboration
II – Climate and Green Finance	Products and services	4	Defining sustainable assets and financial products
		5	Green finance product guidelines
	Climate and green investment reporting	6	Tracking and disclosure of climate and green finance
	Measurement	7	Calculation of environmental benefits
		8	Climate risk exposure assessment
	Incentives	9	Financial and non-financial incentives
III - ESG Integration	Governance of E&S	10	Role of governing bodies on E&S
		11	Organization
	E&S risk management	12	E&S policy
		13	Risk assessment
		14	E&S covenants
		15	Project supervision and portfolio review
		16	Training
		17	External communication mechanism
	<i>As in description.</i>	18	E&S reporting
<i>As in description.</i>	19	Enforcement	

The results of the evaluation are shown using the graph from the report.

Policy Coverage of Sustainable Finance Indicators in Cambodia, as of June 2019



As of June 2019, of the 19 indicators, Cambodia manages to score a full 100% score in 3 of them (indicators 1, 13 and 14), at least 70% in 3 more (indicators 3, 15 and 16) and at least 50% in 1 more (indicator 18). Out of 19, Cambodia scores positive (at least 50%) in 7 of them, or around 35%.

By contrast, the score on 4 indicators (5,9, 10 and 17) was very low, at 0%. Cambodia scored poorly on the presence of Green Finance Guidelines, the availability of financial & non-financial Incentives, having defined roles for governing bodies, and on the effectiveness of external communication mechanisms. Overall, 7 indicators, or 35% of the total, scored less than 40% (4, 5, 9, 10, 11, 17).

The relative equality in the number of positive and negative indicator scores paints a mixed picture for Cambodia, highlighting both areas of significant achievements but also of required future improvements. We calculated the approximate average scores across the 3 pillars, indicating that the one with the highest level of coverage is Pillar I Strategic Alignment (78%), followed by Pillar III ESG Integration (51%) and Pillar III Climate and Green Finance (31%).

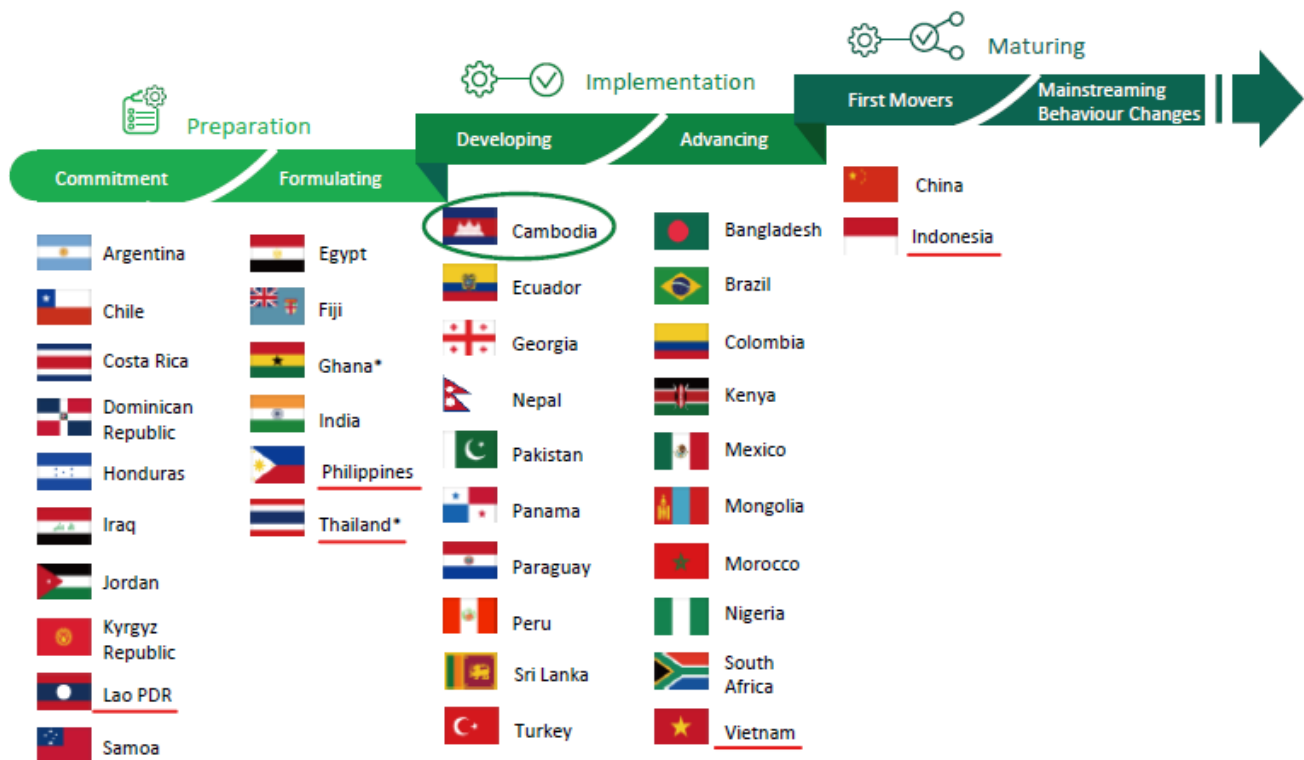
### Significance

The results suggest that, as with many developing countries that the strategies for effective E&S risk mitigation in finance are beginning to take shape, but their implementation, governance and enforcement remain limited.

### 5.4 Comparing Cambodia with its Neighbours

Cambodia’s score can be compared to that of its fellow ASEAN countries: Lao PDR, the Philippines, Thailand, Vietnam and Indonesia. As we can see from the figure below taken from the 2019 SBN Country Progress Report, Cambodia scores moderately well, being in an intermediate position of progress achievement.

Comparing Progress of Cambodia with Other ASEAN Countries (from SBN Report)



There are three stages of progress, each of them further divided, for a total of 6 phases: (1) Commitment, (2) Formulating, (3) Developing, (4) Advancing, (5) First Movers, (6) Mainstreaming Change. Cambodia is currently placed in stage 3, ahead of Lao PDR, the Philippines and Thailand, but behind Vietnam and Indonesia.

## 5.5 Way Forward

Another way to look at data from the report regarding Cambodia's achievements contained in the report is by measuring the extent of policy gaps that still exist across the 3 pillars as of June 2019. The report uses the same classification of indicators and measures the policy gaps in percentage, from 0 to 100%. A higher score indicates more need for improvement in the future. We have colour-coded the values in green and red, with those in green representing areas with positive (less than 50% gap) achievements, whilst those in red (more than 50% gap) highlight areas for future improvement. The results are shown below.

### Policy Coverage to Be Developed in Cambodia, Identifying Gaps

Pillar	Sub-Pillar	Gaps
Pillar I - Strategic Alignment	Alignment with global E&S standards and best market practices	0%
	Alignment to NDCs and with national/regional climate change targets	33%
	Collaboration across different agencies	25%
Pillar II – Climate and Green Finance	Products and services	83%
	Climate and green investment reporting	40%
	Measurement	50%
	Incentives	100%
Pillar III – ESG Integration	Governance of E&S	80%
	E&S risk management	28%
	Enforcement	67%

Pillar I shows the most satisfactory results, with all three sub-pillars scoring green, and an average policy gap of less than 20% (19%). Pillar II has the weakest result, with an average gap of 68%, with only 1 of the 4 sub-pillars scoring green. Pillar III has an average gap of 58%, with one-third of the sub-pillars scoring green.

Looking into the results more in detail, we see that half of the sub-pillars in Cambodia show varying high degrees of policy gap and therefore low compliance with sustainable finance practices. The other half of the sub-pillars, while still displaying gaps, does not appear to be in such an urgent state.

We reordered the 10 sub-pillars according to the width of their compliance gap and therefore the need for future reform. In the process, we also assigned one of four values for the priority of future reform to each sub-pillar, ranging from Highest to Low. The results are shown below.

### Priority for Reform in Cambodian Sustainable Finance Sub-Pillars, reordered

Sub-Pillar	Pillar	Gap	Priority for Reform
Incentives	II - Climate and Green Finance	100%	Highest
Products and services	II - Climate and Green Finance	83%	Highest
Governance of E&S	III – ESG Integration	80%	Highest

Enforcement	III – ESG Integration	67%	High
Measurement	II – Climate and Green Finance	50%	High
Climate and green investment reporting	II – Climate and Green Finance	40%	Moderate
Alignment to NDCs and with national/regional climate change targets	I – Strategic Alignment	33%	Moderate
E&S risk management	III – ESG Integration	28%	Moderate
Collaboration across different agencies	I – Strategic Alignment	25%	Moderate
Alignment with global E&S standards and best market practices	I – Strategic Alignment	0%	Low

We can see that 5 of the sub-pillars with the largest compliance gaps and therefore highest need for reform belong to Pillars 2 and 3. The largest weaknesses in Cambodian sustainable finance practices belong to the areas of green finance and integration of ESG issues in mainstream practices. The most urgently needed reforms regard the introduction of green incentives and the definitions of green financial products and services.

On a lower tier, reforms to better enforce compliance in ESG issues and refining the measurement and methodology of climate risk assessments need to be adopted. Less urgent reforms need to tackle the quality of finance reporting standards, the integration of Cambodia’s national strategies with Nationally Determined Contributions [of CO2 emissions], mitigating the risks of E&S issues, and increasing stakeholder coordination at all levels.

To an extent, all 3 Pillars are relevant to the scope of our study on financial investment in the agribusiness sector, which is to increase the adoption of financial good practices. However, our previous case study has highlighted that ESG issues – in the form of land tenures, wellbeing of local communities and negative environmental impacts from land clearing – are of particular concern. This reflects in us giving higher importance to the 3 sub-pillars belonging to Pillar III – ESG Integration. We see that they are placed either as high- or medium-priority reform areas. Our recommendations for financial stakeholders will be primarily addressed towards this area.

## 6 Recommendations

The following 9 recommendations are meant to be primarily for the main stakeholders in the Cambodian financial sector: FIs and sectoral associations.

The goal is to improve the adoption of financial good practices among Cambodian stakeholders, particularly regarding the mitigation of ESG issues.

The recommendations are classified as either Capacity-Building-oriented, Regulatory, or Monitoring/Reporting/Disclosure. Each recommendation also indicates the stakeholders which are supposed

to take action to implement them. Most recommendations are wide in scope and require concerted action with the involvement of multiple stakeholders across society.

The recommendations are summarised graphically below.

### Sustainable Finance Recommendations

Area	Recommendation	Stakeholders
Capacity-Building	1.1 Establish training sessions for relevant staff members in the financial sector.	Financial sectoral associations, FIs, development partners
	1.2 Publish and disseminate informative material on key aspects of sustainable finance (definitions, role of finance in mitigating ESG risks, taxonomies, guidelines, best practices).	Financial sectoral associations, FIs, development partners
Regulatory	2.1 Allocate roles and adopt financial sectoral strategy to promote sustainable finance and ESG mitigation.	Financial sectoral associations
	2.2 Require FIs to adopt ESS frameworks/strategies (including E&S risk management objectives and targets)	FIs
	2.3 Establish system of non-compliance with ESG rules.	Government, financial sectoral associations
	2.4 Establish a grievance settlement mechanism about noncompliance with ESG rules.	Government, financial sectoral associations
Monitoring, Reporting and Disclosure	3.1 Make ESG reporting and disclosure more consistent via principles and guidelines.	Financial sectoral associations
	3.2 Require FIs to report periodically to governing bodies on the implementation of their ESS/ESG strategies and E&S risk exposure.	Financial sectoral associations
	3.3 Require FIs to disclose E&S policy and governance structure.	FIs

## 6.1 Capacity-Building

The 2 capacity-building recommendations aim to address what we perceive as the current biggest threat to the spread of sustainable finance practices in Cambodia: the lack of human capital and technical skills among financial practitioners in the country. It is crucial that staff members from FIs and sectoral associations at all relevant levels, from front-line units handling client transactions to senior management, possess the adequate



levels of knowledge and awareness about their impact on this issue, as they are the most important stakeholders that can drive change in the sector.

Therefore, we suggest two initiatives to raise human capital: training sessions and the production of informative material. Training sessions are already being carried out by the ABC in Cambodia, and this initiative could therefore be expanded and supported by a wider engagement of stakeholders, possibly with more support from international development partners. Informative material can be in the shape of booklets, infographics, how-to guides, and best practice illustrations. This material could be disseminated at relevant events, or even during the trainings themselves.

### Materials for training and informative campaigns

The purpose of recommendations 1.1 and 1.2 is to increase knowledge of sustainable finance and bridge the skills gap among financial stakeholders in Cambodia. To enhance the effectiveness of the training and informative campaigns, the content material could be organised into a curriculum, tailored according to the profile of the stakeholder.

For the main beneficiaries, which are staff members of FIs (from frontline offices to senior managers), more detailed, “heavy” curricula can be designed. They can include introductory sessions explaining key definitions and concepts of sustainable finance, as well as international initiatives aimed at promoting the issue. A key part of the curriculum for the private sector is making the business case for sustainability. It is important that FIs understand the full range of opportunities offered by them going “green”, since it will incentivise them to participate actively. Therefore, a major part of the curriculum can focus on explaining the economic opportunities provided to FIs by switching to sustainable products and services, such as access to cheap green loans and enhanced brand reputation.

For other participants, such as staff from government, sectoral associations and NGOs, the content can be lighter. An introduction to sustainable finance is still a welcome topic. The focus of the curriculum, however, should be on detailing how non-private actors can contribute to promoting sustainable finance in Cambodia. For instance, regulators could help set up legal frameworks and requirements, whilst NGOs could help organize awareness-raising events and training sessions.

The international best practices described earlier provide a wealth of training and informative material, although it is not exhaustive. The *UNEP FI Guide to Banking and Sustainability* is meant primarily for FIs. It makes a thorough argument in favour of the business side of sustainability by showcasing potential initiatives across 9 areas of corporate activity, from leadership to communication. For policy makers and regulators, a paper<sup>69</sup> published by the *Principles for Responsible Investment* initiative covers recent developments in sustainable finance from the policy perspective, emphasising the important role that sound policymaking can play in helping the financial sector adopt sustainable practices faster and more effectively.

## 6.2 Regulatory

The 4 regulatory recommendations are meant to tackle the current lack of “hard” structure regarding sustainable finance governance in Cambodia. Despite the laudable efforts by ABC, private FIs, government

<sup>69</sup> PRI. (2019). Taking Stock: Sustainable Finance Policy Engagement and Policy Influence. [https://www.unpri.org/Uploads/c/j/u/pripolicywhitepapertakingstockfinal\\_335442.pdf](https://www.unpri.org/Uploads/c/j/u/pripolicywhitepapertakingstockfinal_335442.pdf)



entities and others in promoting the Cambodia Sustainable Finance Initiative, the space for engagement in this area need to be more thoroughly-regulated, to ensure that the initiative maintains momentum, objectives and strategies are clearly defined, and that continuous improvements can be made.

The first step is allocating clear roles to the major stakeholders in the sector: FIs, sectoral associations (including the ABC), government entities. This relates to defining key competence areas to each player, for example on who is supposed to establish a grievance mechanism and with what contribution from other stakeholders. The allocation of roles can be formalised in a document and possibly integrated in the next step.

The financial sector needs more than just a sustainability initiative. It needs a clear strategy with a stated objective, allocated roles and competence areas (especially among sectoral associations and FI members), activities, indicators and timelines. The adoption of a sectoral sustainability strategy, with the participation of sectoral associations and FI members, would be a welcome step. FIs themselves could then be required to create their own sustainability strategies or frameworks, particularly regarding E&S risk mitigation.

Complementary tools to these strategies are a clear system of non-compliance and a grievance addressment mechanism. The creation of the former can help create incentives among participants to comply with agreed provisions, and could contain multiple types of penalties for non-compliers, from simple warnings to formal complaints and financial penalties. The grievance mechanism could help promote the inclusion of wider society into financial good practices, by creating a venue of complaint for disadvantaged groups negatively impacted by investment decisions.

### Developing sector-wide financial roadmaps

The launching of the *Cambodian Sustainable Financial Initiative* has been laudable in establishing a first degree of linkages and coordination mechanisms among various stakeholders in the Cambodian financial sector, including: the *Association of Banks of Cambodia*, the initiative's main promoter, as well as various institutional partners such the Cambodian Ministry of Environment and the *National Bank of Cambodia*.

However, to reach the next step of deepening the commitment by Cambodian stakeholders to promote sustainable finance, the current degree of institutional coordination should more formalized into a national strategic action plan, detailing operational steps and roles for each contributing stakeholder. Morocco is a good example to follow, as it created sector-wide roadmaps for future action.<sup>70</sup>

In 2016, the country's financial sector regulators launched 2 sustainable finance roadmaps: the *Roadmap for Aligning the Moroccan Financial Sector with Sustainable Development*, and *Morocco's roadmap for the alignment of the financial sector with climate change commitments*.

The former was coordinated by the Moroccan central bank, with contributions from seven regulators, including the country's Ministry of Economy and Finance, the *Moroccan Bank's Association*, and the national stock exchange. The latter one was launched to promote the country as an attractive destination for green and climate-resilient investments.

<sup>70</sup> SBN. (2019). Global Progress Report of the Sustainable Banking Network - Case Studies: Inspiring Practices from SBN Members. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn\\_2019+globalprogressreport](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport)

These two roadmaps are potentially replicable in Cambodia, provided they are adapted to suit the local context. For example, a similar initiative in Cambodia could see the ABC play a bigger, leading role, given its proactive approach in promoting the topic.

### 6.3 Monitoring, Reporting and Disclosure

These recommendations aim to improve transparency of information and knowledge sharing among financial practitioners in Cambodia.

Common templates for ESG reporting in sustainability strategies could help Cambodian FIs increase the quality of their writing, as well as making comparisons easier among institutions. There is a vast literature of international best practices to draw from.

FIs could be required to report on both their implementation of E&S strategies, as well as their investment exposure to E&S risk. This would increase knowledge of these institutions' practices and would provide a reputational incentive for members of sustainable initiatives to align more closely to the objectives. Finally, the public would benefit from being able to access more information on FIs' governance structure and sustainability policies, to benchmark sustainability commitments and to adhere more closely to international principles of good governance and information transparency, which are also part of international sustainable finance best practices.

#### Requirements for FIs regarding reporting and disclosure

The European Union has recently passed legislation to improve transparency in sustainability reporting and information disclosure.<sup>71</sup>

EU Regulation 2019/2088 aims to mainstream several aspects of sustainability management into the operations of European-based FIs. Several articles detail requirements for financial companies when disclosing information on their structure and operations.

Article 3 states that FIs are required to publish information online on the integration of sustainability risks in their investment decision making and advice offered.

Articles 4 and 7 list a similar requirement, that FIs reveal their consideration of adverse sustainability impacts brought about by their investment decisions.

Articles 10 and 11 have specific transparency requirements for company websites and periodic reports that promote new financial products being made available on the market, such as "green" loans.

This legal initiative is potentially applicable in Cambodia at various regulatory levels, from financial regulators to financial sector associations. We encourage further discussion on the practical aspects of integrating such measures in the country's legal framework.

<sup>71</sup> Official Journal of the European Union. (2019). Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>