

## CSO<sup>1</sup> POSITION PAPER FOR ASEAN ON GREEN FINANCING AND ENVIRONMENT, SOCIAL, GOVERNANCE (ESG)

Phnom Penh, 31<sup>st</sup> October 2022

Cambodia has committed to achieving the United Nations Sustainable Development Goals (SDGs) through the adoption of Cambodian Sustainable Development Goals (CSDGs) framework 2018. Sustainable green financing is comprehensively relevant to assuring sound environmental and social management, contributing to the CSDG 7 on Environmental Sustainability. In this regard, the Royal Government of Cambodia (RGC), especially the Ministry of Environment (MoE) signed a Memorandum of Understanding (MoU) with the National Bank of Cambodia (NBC), and Association of Banks in Cambodia (ABC) on Cambodia Sustainable Finance Principles (CSFPs)<sup>2</sup> in 2019 to serve as a basis for the Cambodian banks and microfinance institutions (MFIs) in developing their own sustainable finance approaches. Moreover, at the United Nations Climate Change Conference COP 26, RGC is committed to targeting around 42% in emissions reduction by 2030, promoting activities that can deliver low carbon, climate-resilient, and inclusive growth, and increasing forest areas for REDD+.

Fair Finance Cambodia (FFC) Coalition sees the unique roles of the finance and banking sector as one of the implementing mechanisms for attaining sustainable economic growth and green financing practices. At the end of the first semester of 2022, bank and financial institutions (BFIs) in the Banking System include 58 Commercial Banks, 9 Specialized Banks, 6 Representative Offices, 5 Microfinance Deposit-taking Institutions, 81 Microfinance Institutions, 17 Financial Leasing Companies, 33 Payment Service Institutions, 226 Rural Credit Institutions, and 2,874 Money Exchangers.<sup>3</sup> The increase in the presence of a large number of BFIs in Cambodia by August 2022 is a clear testament to the growth of economic activity, including the rise in investment and development projects proposed in compliance with the development policies of RGC. Obviously, the damages to natural and social resources are very interlinked either directly or indirectly with the activities of the large public and private development projects financed by BFIs. Also, the lack of regular and systematic policies and practices of environment, social and governance (ESG) in BFIs results in high risk in loaning on BFIs themselves, the

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<sup>1</sup>Other CSOs joined in this paper including: Diakonia, Asian Vision Institute (AVI), Cambodia Development Resource Institute (CDRI) & Wildlife Conservation Society (WCS).

<sup>2</sup> For more information, please visit <https://www.abc.org.kh/CSEI/sustainable-finance-initiative>

<sup>3</sup> ABC (2022). *Banking and Finance Newsletter in July-August 2022*. Association of Banks in Cambodia. Phnom Penh, Cambodia

communities and the planet. Recent studies and investigations by FFC undertaken by The NGO Forum on Cambodia (NGOF), on environmental and social impact assessment (ESIA) compliance in the banking sector and green financing policies in Cambodia<sup>4</sup>, informed the needs for more effective addresses on some policy options and practices on green financing and ESG for NBC, ABC, MoE, BFIs, and those relevant actors. For instance, MoE shall lead the roles, in collaboration with NBC and ABC, to draft technical notes or guidelines on ESG related practices and compliance for bank and financial sector for immediate and long-term green finance vision.

The following paper presented by FFC requests urgent actions and strategies from those who may concern about assuring long-term investment and intervention for sustainable green finance in Cambodia:

#### FOR CAMBODIA

1. For any development of related ESG and green financing policies, guidelines, or frameworks, there is a need for a clearer and common definition and understanding of green financing and ESG concepts among all stakeholders.<sup>5</sup> Given the mandate of defining what amounts to green and social risks, MoE and NBC must take a lead to give clarity on any ambiguity related to these definitions. The Cambodian Taxonomy is a good opportunity to do so.
2. As ASEAN Taxonomy for Sustainable Finance has been developed, there is a need for Cambodia to develop a similar initiative for the sake of guiding capital in Cambodia towards activities that can promote the transition of activities in the real economy onto a more sustainable footing. MoE shall work with NBC to develop, review, and finalize the Cambodia Taxonomy for Sustainable Finance to ultimately exercise the “Do No Significant Harm (DNSH)”, climate change mitigation, environmental impacts, and healthy planet.
3. The MoE with its Department of Environmental Impact Assessment (DoEIA) should initiate or continue talks and discussions with the NBC and the Association of Banks in Cambodia (ABC) to finetune policy-forming resolutions to promote the implementation of ESG or impact assessment requirements and compliance for BFIs and their financing strategies to the development projects.<sup>6</sup> Based on the MoU

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<sup>4</sup> For full report, please download from <https://cambodia.fairfinanceasia.org/2022/04/08/research-on-environmental-and-social-impact-assessment-esia-compliance-in-cambodian-finance-and-banking/>

<sup>5</sup> Examples of key discussion relevant to ASEAN Taxonomy, Green Finance and Sustainable Finance being discussed among stakeholders have been started, example during the Banks and Financial Institutions Conference 2022 in August, organized by ABC: <https://abc.glueup.com/event/bank-and-financial-institutions-bfi-conference-57450/>

<sup>6</sup> The list of specific development projects exists in the Appendix List of Declaration no. 021 PRK.BST dated 03 February 2020 on the classification of environmental impact assessment for development projects. The Declaration can be

in 2019, the common policy, which is an example of the implementation of this Memorandum, shall include the “*joint-declaration on the requirements of the ESIA report or ESG compliance for the banking and financial sector in Cambodia.*”

4. Based on the spirit of the 2019 MoU on Cambodian Sustainable Finance Initiative<sup>7</sup>, MoE, NBC, and ABC should develop a more detailed and specific *‘joint action plan and set clear key milestones’* to guide the implementation ESIA/ESG in the banking and financial sector in Cambodia, focusing on green financing and the institutionalization of ESIA/ESG in the operation of BFIs’ services as well as similarly for clients’ obligations.
5. As an entry point and to ease the work, NBC shall introduce a *guiding policy* (set as a requirement) to BFIs to apply ESIA/ESG, particularly the Sub-Decree no. 72, Declaration no. 021, 092, 116, 118, 119, 120 and 376<sup>8</sup> and other related ESG regulations prior to their loan or credit approvals. In addition, the compliance reports to these policies and regulations shall be regularly submitted to NBC and MoE for archive and reference documents and for auditing their performance.
6. Under the financial and technical assistance from its interested partners, MoE, with its DoEIA, shall develop additional guidelines on required procedures and operational standards for ESIA/ESG that can be implemented with BFIs in Cambodia. This procedure and standard include a joint-declaration (between MoE and NBC) on the requirements for ESIA/ESG compliance in the banking and financial sector, and a handbook on legal standards regarding ESIA/ESG, and procedures for monitoring and approving the ESIA/ESG reports, the process of public participation in the ESIA/ESG, the environmental monitoring, and some administrative formalities (i.e. Rapid Assessment Matric for classifying environmental risk on loan portfolios), which can facilitate the BFIs’ performance in implementing ESIA/ESG requirements on clients’ loans.
7. BFIs in Cambodia should re-envision their roles in supporting the achievements of CSDGs through walking their policies and commitment towards ESIA/ESG

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downloaded from [https://data.opendatacambodia.net/laws\\_record/prakas-no-021-on-the-classification-of-environmental-impact-assessment-for-development-projects](https://data.opendatacambodia.net/laws_record/prakas-no-021-on-the-classification-of-environmental-impact-assessment-for-development-projects)

<sup>7</sup> For more information, please visit <https://www.abc.org.kh/CSEI/about-csfi>. The MOU sets some commitments for instance (1) Mutual collaboration and assistance to build capacity and raise awareness amongst officials, staff and individuals involved in sustainable financial practices; (2) Share information and documents related to sustainable financial practices; (3) Collaboratively organize a program to raise public awareness of sustainable financial principles; (4) Technical collaboration and assistance in developing and implementing sustainable financial principles; and (5) Provide cooperation and coordination with relevant organizations or institutions to develop and implement sustainable financial policies.

<sup>8</sup> These regulations can be downloaded from <https://bit.ly/3AGQxVB>

practices. These institutions could institutionalize certain regional and global practices of ESIA/ESG in BFIs for instance the Equator Principles, ASEAN Taxonomy for Sustainable Finance<sup>9</sup>, and Fair Finance Guide International Methodology<sup>10</sup> to develop clearer policies on ESG principles and practices.

8. BFIs need to continue strengthening and operating their internal and loan performance on ESIA/ESG 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 BFIs or used for any activities that may cause environmental and social risks, it must be suspended or withdrawn immediately or the borrower is required to conduct the ESIA or show ESG commitment or to fulfill the legal obligations of any relevant ministries prior to the loan release or renewable. In severe cases, the loan shall be terminated unconditionally. BFIs must undertake periodic ESIA/ESG based risk assessments to check if the projects are still in compliance to BFIs' lending guidelines.
9. For a long-term vision and in the spirit of the MoU in September 2019, MoE, NBC, and ABC should jointly develop a *strategic plan* for educating, disseminating, and promoting accurate and up-to-date awareness and knowledge of ESIA/ESG in banking and financial sector in Cambodia. The plan aims at increasing awareness of the general public, BFIs, and the local communities in general.<sup>11</sup>
10. Also, the RGC shall consider increasing the state financial institutions including rural and agriculture development banks, SME Bank, and inspire and support other private financial institutions to increase their green finance schemes. In addition, the RGC shall committedly focus on specific sectors in banking and financial sector for instance enhancing the implementation of crop insurance programs and sustainable consumption and production through a public-private partnership; and increasing the investment in renewable energy, agri-business and climate-resilient crops, climate-smart agriculture, and sustainable agriculture.
11. For the purpose of long-term environmental and social protection, MoE and NBC should provide technical guidance through a number of policies and

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<sup>9</sup> <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

<sup>10</sup> For detail guide, please visit <https://fairfinanceguide.org/ff-international/about-us/#panel-2>.

<sup>11</sup> The plan should highlight important issues such as (a) what is the ESIA/ESG? (b) the process of assessing, monitoring, and approving ESIA in Cambodia, (c) legal frameworks in the environmental and banking and financial sectors and ESG, (d) the main roles of MoE, NBC, ABC, and the project owners, and (e) the benefits of performing obligations on ESIA/ESG in the banking and financial sector.

implementation tools (such as relevant technical guidelines) to the lending banks, requiring the lenders 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 and banking operations will be avoided, reduced or compensated for irreparable damages.

12. The regulators for instance, NBC and MoE ought to think about incentivizing mechanisms for any BFIs who completely champion with the CSFP in order to encourage them to advance their performance and to set a role model for other aspirations. An example could be tax related exemption or annual appreciation for BFIs undergone thorough performance evaluation against the green finance indicators by NBC and MoE. Sometimes short-term good practices get rewarded and publicized, and it is better to avoid endorsement without testing on a long-term basis.
13. FFC requests the RGC as a Chairman of ASEAN to encourage ASEAN Member States (AMS) to adopt and rationalize a common framework on Green Financing or Sustainable Green Financing Initiatives and particularly ESIA/ESG compliance in banking and financial sector. Moreover, since the ASEAN Chairmanship of Cambodia ends by 2022, FFC requests the RGC to handover these green financing policies and commitments to Indonesia for progressive and continuous dialogues and engagement for their ASEAN presidency in 2023.

#### FOR ASEAN

1. There should be a transboundary ESIA standard for ASEAN to assure that inter-member state projects are inclusively and mandatorily complied with a uniform EIA practice. As an example, the ASEAN roadways run through many countries, but impact assessments have been practiced individually in each country and cannot be compromised to have a regional overview of the impacts and synergy to overcome. FFC requests ASEAN to a common ESIA guideline and protocols for ASEAN Member States (AMS) by scrutinizing each country's policies, protocols, and framework; and developing a draft for consultative finalization.
2. The ASEAN Taxonomy for Sustainable Finance has been developed and endorsed as inspired by the meeting of ASEAN Finance Ministers and Central Bank Governors (AFMGM) in 2019. The AMS, including Cambodia, shall further be committed to nationalizing the taxonomy in consultation with key stakeholders, including the private sector, for the benefits of its own environmental and social welfare.

3. ASEAN Taxonomy Board (ATB) and ASEAN Secretariat shall develop a strategic workplan for capacity building and cross knowledge sharing among AMS's financial institutions on sustainable finance, ESG risk management, climate risk disclosure, etc. to the bank officials and other environmental organizations.
4. ATB shall ensure that there are accessible robust government-led grievance and remediation mechanisms; and spaces for mutual dialoging with communities and CSOs for various policy measures, especially for providing inputs to the next draft of the ASEAN taxonomy.

### **About Fair Finance Cambodia**

Fair Finance Cambodia (FFC) established its coalition in 2019 consisting of five Civil Society Organizations (Oxfam, NGO Forum on Cambodia, Cooperation Committee for Cambodia (CCC), Transparency International Cambodia (TIC) and ActionAid Cambodia), SILAKA and a UN agency as observers. FFC coalition aims to contribute to the reduction of the negative impact of cross-border investments on human rights, the environment and climate change, particularly those made by multinational financial institutions, banks and insurers, and to increase inclusive economic development. FFC is operational in the country of Cambodia – wherein the Fair Finance Cambodia civil society organization (CSO) coalition leads research and engagement with the key stakeholders including financial regulatory and policymaking institutions, banking and investment associations, multilateral development banks and the academia. FFC is a member of Fair Finance Asia, a regional network of civil society organizations (CSOs) committed to ensuring that financial institutions' funding decisions in the region respect the social and environmental well-being of local communities.

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