

## 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 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.

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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/>

## 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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