



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) IN BANK AND FINANCIAL INSTITUTIONS (BFIs) IN CAMBODIA – A Follow-Up Study Report

December 2023

# BANK



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The NGO Forum on Cambodia



**FAIR FINANCE CAMBODIA**  
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# ACRONYMS

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ABC	Association of Banks in Cambodia
ADB	Asian Development Bank
ARDB	Agriculture and Rural Development Bank
AFMGM	ASEAN Finance Ministers and Central Bank Governors' Meeting
BFI	Banks and Financial Institutions
BoC	Bank of China
BSC	Board Sustainability Committee
CBC	Credit Bureau of Cambodia
CCC	Cooperation Committee for Cambodia
CITES	Convention on International Trade of Endangered Species
COVID-19	Corona Virus Disease 2019
CSFI	Cambodia Sustainable Financial Initiative
CSFPs	Cambodia Sustainable Financial Principles
CSO	Chief Sustainability Officer
CSOs	Civil Society Organizations
CSR	Corporate Social Responsibility
CSX	Cambodian Stock Exchange
E&S	Environment and Social
EIA	Environmental Impact Assessment
ESRM	Environmental and Social Risk Management
ESC	EXCO Sustainability Committee
ESG	Environment, Social, and Governance
ESS	Environmental and Social Sustainability
EU	European Union
FTB	Foreign Trade Bank
KCGS	Korea Corporate Governance Service
NCSD	National Council for Sustainable Development
MoE	Ministry of Environment
MoU	Memorandum of Understanding
MSCI	Morgan Stanley Capital International
NBC	National Bank of Cambodia
NGOF	The NGO Forum on Cambodia
NGOs	Non-Governmental Organizations
NRM	Natural Resources Management
PPPCB	Phnom Penh Commercial Bank
SFF	Sustainable Finance Forum
SRB	Social Responsibilities of Businessman
UN	United States
UNESCAP	United Nations, Economic and Social Commission for Asia and the Pacific
USD	United States Dollar
WCW	Who Cares Wins
WWF	World Wide Fund for Nature

# SUMMARY

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Financial institutions (FIs) are shifting their focus from shareholders to stakeholders by incorporating socially responsible behavior into their governance structures. In Cambodia, banks and financial institutions (BFIs) are increasingly embracing profit-driven approaches aligned with Environmental, Social, and Governance (ESG) practices. The purpose of this report is to evaluate the progress made in implementing the recommendations outlined in the 2021 report on Compliance of ESIA in the Finance and Banking Sector in Cambodia and to document notable examples of ESG practices within the country's banking and financial sectors for the period of 2021. The report aims to study the challenges and interests of banks in adhering to the rules and regulations of the Ministry of Environment (MoE), such as Sub-Decree 72, and provide stakeholders, including corporations, civil society organizations, and NGOs, with policy options and operational standards for environmental impact assessments in Cambodia's banking and financial sector.

A qualitative approach has been employed to capture the stories and narratives surrounding ESG practices among BFIs in Cambodia. Key individuals and institutions were selected for interviews and discussions using purposive sampling. Meetings and interviews were scheduled with stakeholders such as the National Bank of Cambodia (NBC), the Association of Banks in Cambodia (ABC), ACLEDA, the Bank of China (BoC), and several non-governmental organizations (NGOs).

There has been a rise in ESG and sustainability engagement among BFIs in Cambodia following the Royal Government of Cambodia's (RGC) mandate to introduce the Cambodian Bank Code, which includes sustainability regulations for the banking and financial sector. Subsequently, the Cambodia Sustainable Finance Initiative (CSFI) was launched to further advance these principles and guide BFIs in Cambodia. The ABC adopted the Cambodia Sustainable Finance Principles (CSFPs), which consist of nine key principles. However, it is important to note that adherence to the CSFPs is currently more voluntary than mandatory.

Some key findings and discussions are:

- The MoE has taken some initial steps to promote ESG and related compliance within the banking and financial sector, as evidenced by the inclusion of sustainability risk assessment in the Environment and Natural Resource Code 2023. However, there is currently a lack of specific guidelines detailing the procedures and inclusion of ESG factors in conducting the risk assessment.
- Significant progress has been made in raising awareness and providing technical training on ESG matters among BFIs. Recent findings indicate that there have been formal initiatives and efforts to disseminate knowledge and training on ESG to member banks.
- The National Bank of Cambodia (NBC) has shown a growing commitment to ESG considerations and related compliance measures through formal attention and significant efforts.

- A few interviewees acknowledged the report, but were not familiar with it or adopting its recommendations. In addition, assessing progress so soon after the report's launch was deemed unrealistic.
- A detailed work plan for the 2019 Memorandum of Understanding (MoU) among NBC, ABC, and Ministry of Environment (MoE) remains lacking. The ABC's 2021 Report recommends that NBC, ABC, and the MoE develop a detailed joint work plan to outline key activities in mainstreaming environmental and social compliance in the banking and financial sector.
- So far, ESG practices have been observed among Cambodian banks. Of the 34 banks that submitted their 2021 annual reports to NBC, 29 were publicly available for download and review. Only six of the studied reports did not mention their corporate social responsibility (CSR) or other related activities.
- The term 'ESG' is relatively new to BFIs in Cambodia, but they have been engaging in CSR activities to some extent. The participants in the study expressed confusion regarding ESG and its relevance to their banking and financial sectors. However, they recognized 'CSR' as a means of contributing to society through their operations.
- The practical implementation of the social (S) and governance (G) aspects of ESG is more prevalent than the environmental (E) aspect. The RGC has imposed strict obligations on private BFIs to establish a standardized system of performance, ensuring effective and lawful transactions and operations within Cambodia and internationally.
- No significant long-term outputs on ESG practices among BFIs have been recognized, as CSFPs remain generic and non-binding. The CSFPs were overarching, voluntary, and provided no concrete foundation for the entry points or initial start-ups.
- While there is optimism that ESG implementation will benefit BFIs, the incentives for implementation appear limited. Participants in the study emphasized that ESG adds value to their operations but requires significant investment in finance and human capital. In the voluntary context, providing incentives for those taking proactive steps is crucial.
- There has been a good and positive start for the Agriculture and Rural Development Bank (ARDB) on green loaning. However, the focus has been on product diversification rather than binding itself and its clients to ESG compliance.

The banking and financial sector in Cambodia is crucial for economic growth, but some projects funded by these institutions have negative environmental and community impacts. The pursuit of profit often outweighs social concerns, leading to risks and hazards. While CSR practices have been widely practiced, their implementation has not been fully optimized. The introduction of ESG principles has provided a stronger framework for BFIs to address these issues. MoE has taken some steps to promote ESG compliance, but there is a lack of specific guidelines. The Cambodian Sustainable Finance Principles (CSFP) are being piloted, but there is a need for greater promotion and awareness of sustainable financial principles. The



performance of CSR and ESG among BFIs in Cambodia remains unstructured and lacks strategic direction. The financial industry faces challenges due to the absence of fully established rules for ESG investment from regulators and investors. Collaboration between regulators, investors, and BFIs is essential to develop robust frameworks and guidelines that incorporate ESG considerations.

In term of recommendations, the absence of a specific guideline for sustainability risk assessment in the banking and financial sector necessitates the establishment of clear guidelines to guide financial institutions in navigating ESG compliance. The NBC, ABC, and MoE should collaborate to explore policy alternatives and strategies for implementing ESG principles in Cambodia's banking and financial sectors. Public awareness and capacity building on ESG practices should be prioritized, with digital materials and various platforms used to promote these practices. Developing explicit policies and guidelines outlining ESG requirements and establishing a robust monitoring system are also crucial for ensuring compliance and sustainable development.

NBC, ABC, and MoE are encouraged to continue promoting and strengthening ESG principles in the banking and financial sector through incentives, regular meetings, and collaboration with organizations like development agencies and philanthropic foundations. They should also establish an ESG Foundation to generate funds for capacity building and awareness campaigns. Regular monitoring of member institutions' ESG performance will help identify areas for improvement and provide targeted guidance. This proactive approach will contribute to a sustainable and responsible financial ecosystem in Cambodia.

NBC, ABC, and MoE shall plan to integrate ESG principles into the banking and financial sectors through dialogues and fundraising campaigns. ABC is considering establishing an ESG Foundation to generate funds for capacity building and awareness. Regular monitoring of member institutions' ESG performance will identify areas for improvement. NBC and ABC are also urging BFIs to register with the Cambodia Securities Exchange to diversify funding sources and attract investments aligned with sustainable and green initiatives.



# I. INTRODUCTION

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The banking and financial sector plays an essential role and is one of the mechanisms for promoting sustainable economic growth. Increasing economic activity for the nation and the people earning a living begins with ensuring cash flow and currency circulation. The proliferation of many banking and financial institutions (BFIs) in Cambodia is a clear testament to the growth of economic activity, including a rise in investment or development projects proposed to comply with the development policy of the Royal Government of Cambodia (RGC). These BFIs are a source of essential capital for investments. While financing development projects is economically beneficial, these projects' ecological and social impacts require serious scrutiny to assure long-term sustainability. Financial institutions started changing their focus from shareholders to stakeholders, primarily through modifications to governance structures to incorporate socially responsible behavior (Silva, 2022).

The damage to resources caused by the activities of the development project can be indirectly attributed to the BFIs, which funded the projects. Customarily, before approving a loan, banks scrutinize borrowers' creditworthiness without regard to the proposed project's potential environmental and social impacts. This lack of ecological and social accountability can lead to the damage of resources and, ultimately, the failure of the project itself, resulting in the inability to repay debts. According to the 2018 World Wildlife Fund (WWF) Report, ASEAN banks are not fully utilizing their potential to promote sustainable development (WWF, 2018).

There are several reasons why the importance of responsible finance has grown in recent years. First, the risks of environmental pollution and natural resource depletion are increasing. As a result, investment firms must be prepared to deal with these risks to avoid potential economic losses (RIS, 2019; Noh, 2018). Second, stakeholders expect firms and financial institutions to be socially responsible. Third, the gravity of the situation has recently been highlighted in both various local and international news outlets, researchers and practitioners. In other words, social awareness of crises such as climate change, natural resource scarcity, and environmental destruction has shifted. Fourth, firms' management paradigms are increasingly recognizing the importance of sustainability (ibid.). Similar claims were made about the adoption of ESG in BFIs. Korwatanasakul (2020) asserts that ESG has been increasingly institutionalized in private firms based on several reasons. Firstly, there is a growing interest among investors in long-term investments that promote the sustainability and longevity of firms' benefits. Secondly, the increasing viability of an investment decision on firms' market values—going beyond financial to social and environmental assets. Lastly, there has been a rapid surge in public demand for responsible and accountable investments.

As of 2018, more than three million people in Cambodia have received loans or credits from BFIs amounting to around USD 21 million. Of this number, 57% are women, and 17% of lenders have relationships with more than one financial institution (CBC, 2018). At the end of the first semester of 2022, BFIs in the Banking System included 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 (ABC, 2022). The growing number of BFIs in Cambodia by August 2022 was 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.

However, the damages to natural and social resources are directly or indirectly linked to the

activities of the large development projects financed by BFIs. The absence of regular and systematic policies and practices related to ESG in BFIs poses significant risks in terms of lending. These risks extend to the BFIs themselves, the communities they serve, and the overall well-being of the planet.

Remarkably, no legal basis or provision institutionalizes environmental and social protection from Cambodia's banking and financial operations, except the Code of Banking Practice (2015), which guides the ABC to emphasize the criteria based on the CSFP in approving credit to clients. Clause 12.1 of the Code recommends that banks diligently assess customers' credit repayment ability using five prescribed criteria. However, the code and the pre-lending assessment criteria do not consider environmental and social issues that may affect clients' businesses and, ultimately, their ability to repay loans (NGOF, 2021).

## **II. RATIONALE**

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The Report on the Compliance of Environmental Impact Assessment in Bank and Financial Institutions in Cambodia, referred to as 'The 2021 Report' within this document, was officially launched in 2021. During the launch, key stakeholders were invited to participate, with the expectation that they would adopt the specific recommendations outlined in the report. The FFC Coalition, along with its esteemed members, including NGOF, Cooperation Committee for Cambodia (CCC), Action Aid Cambodia, Oxfam, and Transparency International Cambodia, remains dedicated to their commitment of promoting environmental, social, and economic sustainability. They have been consistently engaged in implementing strategies for communication and fostering consistency in their efforts.

In order to further contribute to the advancement of ESG practices and sustainability, it is recommended that a follow-up study be commissioned. This study focused on exploring the challenges faced by banks and identifying best practices related to ESG requirements. The study aimed to provide updated insights into the current ESG performance among BFIs (Banks and Financial Institutions) and to inform key stakeholders, including the government, corporations, civil society organizations (CSOs), and NGOs. The study would propose alternative policies and practices related to ESG in the banking and financial sectors, with the objective of holding banks and their business clients accountable for standardized ESG practices that contribute to long-term sustainability.

## **III. STUDY OBJECTIVES**

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1. To provide a follow-up and share the progress made with relevant stakeholders regarding the implementation of recommendations from the previous study 2021 report in promoting sustainable ESG practices in Cambodia.
2. To conduct a case study on the good practices of a selected bank and its business clients toward promoting sustainable ESG in Cambodia, especially in the field of agri-business or hydropower infrastructure.
3. To develop and present to key stakeholders, including MoE and NBC/ABC, policy recommendations for responsible and inclusive investment by the financial sector.

## IV. STUDY METHODOLOGY

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The author used desk review and a qualitative approach to collect data for the study findings and recommendations for the report and policy brief. The following methods were applied where appropriate.

- (A) **Secondary data collection:** A comprehensive literature review was conducted, focusing on the legal tools and policies of the MoE, as well as the policies, practices, and reports of BFIs regarding ESG and CSR compliance. The aim was to identify any policy gaps within the BFIs. Notably, banks' annual reports submitted to NBC were critically reviewed to understand their ESG-related performance. 34 banks submitted their 2021 annual reports, but only 29 were obtained and reviewed. Other relevant existing documents and policies related to green financing principles and practices in Cambodia were carefully collected and reviewed before verifying the study design and factual findings. Based on the existing literature and consultations with the NGOF team, the authors reviewed and finalized the study design and approaches, including data collection tools, data analysis and reporting, and the timeline for responding to the desired deliverables.
- (B) **Primary data collection:** Personal insights talks with key actors at the national level about policy, practice, and challenges of ESG promotion in Cambodia's banking and financial sector, as well as a way forward to seek the entry point of the kick-off for initiating effective practices and compliance, are essential. Given the ongoing threat of the COVID-19 pandemic, some talks or discussions were conducted virtually. **Purposive sampling** was employed to specifically target key stakeholders in 1) the banking and financial sector, including NBC and ABC, as well as prominent banks, and 2) the Ministry of Environment (Department of Environmental Impact Assessment-EIA) and civil society groups that demonstrated a strong commitment to ESG promotion. A predetermined list of individuals or organizations was created, and comprehensive questions were formulated and shared with the selected stakeholders in advance of the scheduled appointments. Despite several follow-ups, the MoE did not respond to the appointment letter. But later a representative was assigned to the consultative meeting on 14 December 2023 to review and comment on the report. Then an official feedback was received from MoE on 09 January 2024. On the other hand, NBC also invited the consultant, NGOF, and Oxfam for a verification meeting on 27 December 2023.
- (C) A case study approach was adopted to document best practices or successful initiatives in implementing ESG practices within the banking and financial sectors. Four of ABC's 47 members were selected based on their advancement to true ESG practices by reviewing their related reports on websites. The case studies aimed to capture the efforts and strategies undertaken by each bank or financial institution to promote ESG within their operations.
- (D) Data analysis was conducted to derive study findings and facilitate discussions by highlighting key findings and proposing recommendations for holding BFIs, their businesses, and their clients accountable for incorporating ESG standards into their policies and practices. The analysis was performed by identifying emerging themes from the data collection process, examining notes and transcripts, and reviewing responses in relation to the study objectives. The themes were then compared across key variables

to generate a comprehensive and detailed analysis of past and present insights and observations on ESG promotion and practices in Cambodia's banking and financial sector. The analysis utilized narrative and content analysis methods to extract meaningful information and draw insightful conclusions.

- (E) A validation workshop was organized on December 1, 2022, with key actors, including MoE and NBC, ABC, community representatives, CSOs and NGOs, and BFIs, to help fine-tune the report's findings and recommendations. A final consultation workshop was held on 14 December 2023 to update the key findings and recommendations from the study and several meetings with other related institutions. It was also conducted to get final feedback on the final draft report.

## V. STUDY FINDINGS

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### (A) ESG and CSR

Environmental, social, and governance (ESG) investment has become a global trend, focusing on firms' efforts to improve environmental (E), social (S), and governance (G) factors (Sonobe & Nemoto, 2022). ESG is an acronym developed in a 2004 report by 23 financial institutions. It was mentioned in a report, 'Who Cares Wins (WCW)', initiated by the UN Secretary-General, Kofi Anon, and UN Global Compact in 2004 in collaboration with the Swiss government (Gillan, Koch, & Starks, 2021). Through a series of high-level meetings with investment professionals, WCW aimed to support the financial industry's efforts to integrate ESG issues into mainstream investment decision-making and ownership practices (IFC, FDFA, & The Global Compact, 2009).

IFC defines ESG as **“a comprehensive framework encompassing environmental, social, and governance factors that companies consider when managing their operations, and that investors consider when making investment decisions.”**<sup>1</sup> ESG factors involve assessing and addressing risks, impacts, and opportunities related to a wide range of areas, including but not limited to:

- Environmental issues: This includes evaluating potential or actual changes to the physical or natural environment. Examples of such issues include pollution, impacts on biodiversity, carbon emissions, climate change, and the use of natural resources.
- Social issues: Social considerations involve examining potential or actual changes that may affect surrounding communities and workers. This encompasses areas such as health and safety practices, supply chain management, and promoting diversity and inclusion within the workforce.
- Governance: Governance focuses on the structures and processes that guide and control companies. This entails evaluating corporate governance practices, such as board structure and diversity, ethical conduct, risk management, and the extent of disclosure and transparency. Governance also encompasses the management of key environmental and social policies and procedures.

By considering these ESG factors, companies can take a holistic approach to managing their operations in a responsible and sustainable manner. Similarly, investors can use ESG as a framework to evaluate the long-term viability and ethical practices of potential investments. The integration of ESG principles helps promote environmentally sound practices, social responsibility, and effective governance within businesses and investment decision-making processes.

On one hand, CSR has been widely debated and recommended, particularly for private corporations. This term was first featured in a book by Howard R. Bowen titled '*Social Responsibilities of Businessman*' (SRB), published in 1953. Bowen claims that the '*individual businessman often fails to comprehend fully the connection between his private decisions and the public welfare*' (Bowen, 1953). CSR or SRB was first defined as '*the obligations of the businessmen to pursue those policies, to make those*

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<sup>1</sup> <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-esg-guidebook.pdf> (p. 13)

*decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society'* (Bowen, 1953, p. 6). Later on, the EU (2002) defined CSR as *'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'* (EU, 2002, p. 5).

CSR has traditionally referred to corporations' efforts to be more socially responsible or better corporate citizens. One distinction between the two terms is that ESG explicitly includes governance issues, whereas CSR includes governance issues indirectly through environmental and social considerations. As a result, ESG is a more general term than CSR (Gillan, Koch, & Starks, 2021). CSR addresses various business issues, from corporate governance and environmental protection to social inclusion, human rights, and national economic development (Petkoski & Twose, 2003).

## **(B) ESG in Banking and Financial Sector**

The banking and financial services sector plays a vital role in enhancing the value of ESG (Environmental, Social, and Governance) considerations by enabling value exchange, managing risks, supporting value-based investments, and instilling the necessary security and confidence to foster economic growth.<sup>2</sup> Firstly, the financial services sector facilitates value exchange by connecting investors and businesses that prioritize ESG practices. It provides a platform for capital flow towards companies that demonstrate strong environmental stewardship, social responsibility, and effective governance. This enables the allocation of resources to projects and initiatives that generate positive social and environmental impacts, creating value for both investors and society as a whole. Secondly, the financial services sector contributes to ESG by managing risks associated with ESG factors. It helps identify and assess potential risks and vulnerabilities related to environmental, social, and governance issues. By incorporating robust risk management practices, financial institutions can mitigate these risks, protecting their own financial stability and the interests of their clients and stakeholders. This, in turn, promotes long-term sustainable growth and resilience within the financial system. Thirdly, the financial services sector supports value-based investment by providing a range of financial products and services that cater to investors' ESG preferences and goals. It offers investment options such as sustainable funds, green bonds, and impact investing vehicles, allowing individuals and institutions to align their investment portfolios with their values and contribute to positive social and environmental outcomes. This enables investors to generate financial returns while making a tangible difference in addressing global challenges.

Lastly, the financial services sector instills the necessary security and confidence required for ESG initiatives to thrive. It establishes frameworks, standards, and regulations that promote transparency, accountability, and disclosure of ESG-related information. By doing so, it enhances market integrity and ensures that investors have access to reliable and comparable data on ESG performance. This transparency and trust-building measures foster investor confidence, attract capital inflows, and drive economic growth in sustainable and responsible ways.

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<sup>2</sup> <https://www.thecorporategovernanceinstitute.com/insights/guides/guide-esg-finance-sector/>

## (C) ESG-related Terms for Banks

### B.1 Social Banks

Most social banks are typically only concerned with the profit-people-planet principle. Making money is important to social banks, but so is advancing the welfare of people and the environment. The primary factor in determining whether a lending practice is ethical is its responsibility for the entire society, which is more significant than profit alone. Social banks place a strong emphasis on three distinctive qualities: transparency—full disclosure to all depositors of how their money is lent; responsibility—caring about mutual responsibility and expecting borrowers to use loans responsibly for the greater good; and sustainability—investing in small projects that may snowball into larger positive effects over time (Benedikter, 2011).

### B.2 Responsible Banks

In 2019, the UN launched the Principles for Responsible Banks through UNEP Finance Initiative (UNEP FI)<sup>3</sup> to increase lending to support socially and environmentally sustainable economic activities (UNEP, 2022). Banks can voluntarily sign the Principles and thereafter adopt the six key adherences – *alignment* (to SDGs, Paris Climate Agreement, for instance); *impact and target setting* (assessing and setting the targets on their most significant impacts on people and planet); *clients and customers* (developing sustainable practices for their clients); *stakeholders* (consulting, engaging and partnering with different stakeholders); *governance and culture* (implementing effective governance and a culture of responsible banks); and *transparency and accountability* (for their impacts and contributions to society and planet) (Olmo, Saiz, & Azofra, 2021). Although the Principles are optional, UNEP FI offers signatories several advantages, including access to the collective knowledge of the world's largest community of sustainable bankers and joint delivery of tools, methodologies, and guiding practices that go far beyond what conventional banks could accomplish on their own.

### B.3 Sustainable Banks

These banks offer "*financial products and services developed to meet the needs of people and safeguard the environment while generating profit*" (Yip & Bocken, 2018). Positive investments made by sustainable banks protect societal prosperity and generate significant financial gains for the banks (Eccles, Loannou, & George, 2012). Or sustainable banks are those that have placed social and environmental responsibility at the forefront of their operations (Abor, et al., 2019; Nepomuceno, Daraio, & Costa, 2020). When banks started being held responsible to society and ideas like ethical banking and corporate social responsibility (CSR) emerged, sustainable banking began to develop (Nosratabadi, Pinter, Mosavi, & Semperger, 2020).

### B.4 Ethical Banks

Ethical banks are generally a type of banking that considers the broader effects of its lending or investing activities, with social and environmental impacts being the most

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<sup>3</sup> For more information, please visit <https://www.unepfi.org/>



significant ones (Novaković & Liović, 2016). By investing in socially, economically, and environmentally sound projects, ethical banks put people's welfare and quality of life ahead of financial gain (ibid.). Socially responsible investment (SRI) and corporate social responsibility (CSR) are two ideas that are connected to the emergence of ethical banking (Martinez, Rambaud, & Oller, 2020). These banks that put people before economic profit have continued to gain recognition since the 2008 financial crisis and have increased in both strength and number without ceasing (GABV, 2015). The principles of economic sustainability, environmental responsibility, social inclusion, ethics, and transparency are upheld by ethical banks, which are legitimately seen as a new direction in banking (Novaković & Liović, 2016).

The goal of ethical banking extends beyond the economic benefits and includes the social ones. Traditional banks occasionally integrate moral and social considerations via CSR. Instead of being motivated by a sense of moral obligation, these activities appear to be focused on increasing economic profitability or, at the very least, maintaining current profitability while using CSR as a source of competitive advantage (San-Jose, Retolaza, & Gutierrez, 2009). Understanding the foundation upon which a bank bases its ethical behavior is critical. An ethical bank may define itself as such, but other banks may also use this term. This point of rupture depends on the bank's ethical commitment, which could be expressed in terms of the use of benefits (CSR) or deposited funds (Edery, 2006). Unlike conventional banking, ethical banking does not yield higher profits. However, ethical banking has noticeably higher liquidity, solvency, and guarantee, which implies a lower risk; the main reason for this is that ethical banking develops its operations within the real economy and forgoes speculation (Martinez, Rambaud, & Oller, 2020).

#### *B.5 Eco- or Green Banks*

Green Banks are financial institutions that consider environmental factors when providing financing (Julia & Kassin, 2020). Eco-friendly financing is also known as green banking. It refers to any banking practices that promote the well-being of the environment and the country's overall welfare (Lalon, 2015). A conventional bank can become a green bank by focusing its core operations on environmental improvement. The term '*green banking*' has gained popularity in the banking industry, as it involves creating inclusive banking strategies that foster significant economic growth while encouraging eco-friendly behaviors. Through green banking, banks can significantly help to rebalance the environment and maintain a livable environment for future generations. Only legally binding regulations can guarantee that banks participate in green initiatives. Green banking is crucial for achieving a lasting positive impact on business. Businesses are the driving force behind the economy, and environmentally friendly businesses play a vital role in determining the long-term sustainability of the economy. Therefore, it is essential to establish successful green businesses. Central banks must play a crucial role in introducing and implementing green banking.

### **(D) ESG in Banking in ASEAN**

Despite many obstacles and setbacks, such as the pandemic and environmental problems, ASEAN has been recognized for its progressive approach to economic, social, and cultural assets. However, the industrialization taking place in ASEAN has exacerbated several environmental issues. ASEAN member states (AMS) are grappling with various problems, including poor air quality, water pollution, improper waste

management, excessive resource extraction, and poor sanitation (ASEAN, 2021). The 2030 Agenda for Sustainable Development in Asia and the Pacific has been adopted by all AMS, who have also signed the Sustainable Development Goals (SDG) of the United Nations. For ASEAN to advance its sustainability agenda, financing is essential. The 2019 ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) acknowledged the importance of sustainable finance. The ASEAN Taxonomy serves as a road map to direct investment toward ventures that can support the real economy's shift to more sustainable business practices. The ASEAN Taxonomy is intended to be inclusive, grounded in science, and sensitive to the various stages of AMS development. In 2018, WWF published a report titled 'Sustainable Banking in ASEAN,' which examined 34 banks in ASEAN countries based on environmental, social, and governance (ESG) indicators. The report highlighted several challenges in promoting ESG in financial institutions (WWF, 2018):

- Only limited information is currently available regarding board and senior-level oversight of significant ESG issues, such as climate change. Sustainability is still not formally included in the mandate of board committees.
- The mechanisms and procedures of corporate governance in ASEAN banks have not yet been fully integrated with sustainability.
- Most ASEAN banks now recognize that their ESG risks and opportunities primarily exist within their portfolios rather than their own operations and have adopted sustainability as a core business strategy.
- With only minor improvements in the number of banks developing and disclosing sector-specific policies or requirements, the inclusion of sustainability in the banks' corporate strategies is not reflected in their policies and procedures.
- Banks are disclosing their ESG implementation-related obligations more openly, and some are even developing new sustainable finance products to take advantage of opportunities. Banks still have trouble implementing effective ESG risk management and capturing the benefits through product development and portfolio transitions due to capacity gaps and a lack of training.
- The management of ESG risks and opportunities at the portfolio level is still not disclosed, suggesting that banks are not yet ready to meet the disclosure requirements related to ESG that investors are beginning to expect.

#### **(E) Recent ESG-related Progresses in Cambodia**

- On December 19, 2023, the National Bank of Cambodia (NBC) and the International Finance Corporation (IFC) joined forces by signing a cooperation agreement focused on the Development of the Cambodia Green Finance Taxonomy and Market.<sup>4</sup> This collaborative effort is driven by the shared objective of mitigating the impacts of climate change in Cambodia while facilitating the country's transition towards a green economy. The primary goal of this cooperation agreement is to establish a comprehensive and standardized taxonomy for green assets within Cambodia. By defining clear criteria and guidelines, the taxonomy will enable financial institutions and investors to identify and assess environmentally sustainable projects and initiatives. This will facilitate the flow of investments towards green sectors, fostering the growth of a sustainable economy in Cambodia. Moreover, the partnership between the NBC and the IFC will also prioritize enhancing the capacity of financial institutions operating in Cambodia. This will involve providing training, knowledge sharing,

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<sup>4</sup> [https://www.nbc.gov.kh/english/news\\_and\\_events/news\\_info.php?id=770](https://www.nbc.gov.kh/english/news_and_events/news_info.php?id=770)

and technical assistance to financial institutions, enabling them to integrate green finance principles into their operations. By strengthening the understanding and capabilities of these institutions, the cooperation agreement aims to create a robust financial ecosystem that supports and encourages green investments. Ultimately, the development of a Cambodia Green Finance Taxonomy and the establishment of a supportive financial ecosystem for green investment are crucial steps towards promoting sustainable development in Cambodia. By aligning financial flows with environmentally friendly projects and facilitating the transition to a green economy, this cooperation agreement contributes to the country's efforts in addressing climate change challenges and achieving long-term sustainable growth.

- In a significant collaboration, the National Bank of Cambodia (NBC), together with the British Embassy to Cambodia and EY Singapore, organized a momentous **Training Series on ESG Risk Management**.<sup>5</sup> The comprehensive training program, which commenced on February 8 and completed on 14 July, 2022, successfully concluded with five training sessions. Its primary objective was to disseminate knowledge about the framework for managing climate-related risks specifically tailored to banking and financial operators. Recognizing the urgent need to address climate change, the NBC, along with banking and financial institutions, has made sustainable finance a top priority. By actively participating in measures to mitigate the adverse effects of climate change, these entities aim to play a vital role in promoting environmental sustainability and resilience. The training series served as a platform to share essential expertise and insights on ESG risk management. Participants were equipped with the necessary tools and knowledge to navigate the evolving landscape of sustainable finance. By enhancing their understanding of climate-related risks, the training aimed to empower banking and financial operators to integrate sustainable practices into their operations effectively.
- Starting from June 2023, ABC and the Cambodia Microfinance Association (CMA) have jointly introduced the **Guideline on the Implementation of Standard Loan Contracts and Standard Text of Contractual Terms for Banks and Financial Institutes**. This guideline serves as a comprehensive framework to regulate and standardize loan contracts in the banking and financial sector. A crucial component of this guideline is Annex 2, which specifically focuses on ESG and Client Protection. It emphasizes the importance of strict adherence to practices that protect the planet, environment, and promote sustainable finance. The guideline advises Banking and Financial Institutions (BFIs) and their clients to prioritize environmental and social considerations and align their actions with the Cambodia Sustainable Finance Guideline. Annex 2 of the Guideline mandates compliance with environmental and social performance standards. This includes evaluating and mitigating environmental and social risks and impacts associated with the clients' businesses. It also places emphasis on labor and working conditions, community health, safety, and security, as well as resource efficiency and pollution prevention. By incorporating ESG and Client Protection into the loan contract standards, ABC and CMA aim to foster responsible lending practices. The guideline seeks to ensure that BFIs and their clients are fully aware of their environmental and social responsibilities, promoting sustainable business

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<sup>5</sup> [National Bank of Cambodia on LinkedIn: On Thursday Afternoon, July 14, 2022, the National Bank of Cambodia, in...](#)

practices and minimizing adverse impacts on the environment and society. This initiative reflects the commitment of ABC and CMA towards sustainable finance and responsible lending. By integrating ESG considerations and client protection into loan contracts, they aim to create a more sustainable and inclusive financial ecosystem in Cambodia. The Guideline provides a framework for BFIs and their clients to align their operations with environmental and social performance standards, fostering a positive impact on the environment, society, and the overall well-being of the community.

- On December 8, 2023, National Bank of Cambodia and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) joined hands by signing a Memorandum of Agreement to establish the "**Cambodia Sustainable Finance**" initiative. This collaborative effort aims to propel the advancement of a sustainable finance system in Cambodia through an all-encompassing, integrated, and strategic approach. The initiative emphasizes the involvement of multiple stakeholders, recognizing that sustainable finance requires collective efforts from various sectors. By bringing together diverse perspectives and expertise, the objective is to expedite the development of an enduring financial framework that aligns with Cambodia's national sustainable development and climate targets. To achieve this, the "Cambodia Sustainable Finance" initiative will create a comprehensive roadmap. This roadmap will serve as a clear and organized plan, outlining the finance needs, identifying gaps, exploring potential sources of funding, and presenting viable options. It will be tailored to support the realization of the country's sustainable development goals while considering the environmental and climate-related aspects. Furthermore, the initiative will provide guidance on prospective projects and investment pipelines that qualify for financing. By advising on eligible initiatives, the aim is to facilitate the identification and implementation of sustainable projects that contribute to Cambodia's long-term economic growth and environmental well-being.
- In another collaborative effort, NBC partnered with KPMG in Cambodia to organize an insightful workshop titled "**ESG Integration in Cambodian Banking Sector.**" The workshop took place on Thursday afternoon, June 29, 2023, and aimed to foster awareness and enhance the regulatory capacity regarding ESG issues within the Cambodian banking sector. The primary objective of the workshop was to facilitate knowledge sharing on ESG and the pivotal role of the banking sector in addressing these issues. Participants had the opportunity to delve into topics such as ESG fundamentals, regional trends, and regulatory updates pertaining to ESG practices in the banking industry. Through this exchange of knowledge, the workshop aimed to equip regulators with the necessary tools and insights to effectively integrate ESG considerations into their regulatory framework. A key highlight of the workshop was the emphasis on developing a National Taxonomy. The significance of creating a comprehensive framework for sustainable finance in Cambodia was underscored, as it plays a crucial role in promoting responsible and environmentally conscious banking practices. By establishing a National Taxonomy, Cambodia can provide clear guidelines and categorizations that align with international standards, enabling financial institutions to make informed decisions and investments that contribute to sustainable development. The workshop served as an important platform for raising awareness and building capacity among regulators.

**(F) Little is known about the previous report in 2020**

During the assessment of stakeholder implementation of the recommendations from the report on EIA compliance in Cambodia's banking and financial sector, released in December 2020, a few interviewees acknowledged the report's existence. However, they admitted to not recalling or implementing the recommendations themselves. They appreciated the report's role in providing insights into the current state of EIA practices, particularly within the banking and financial sectors. However, they pointed out that expecting readers to immediately follow the recommendations without a formal notice or guide from the NBC was unrealistic. The interviewees viewed the NGO report as a valuable tool for information sharing but noted that it did not impose any legally binding obligations. They also considered assessing the accomplishments so shortly after the report's release impractical. Consequently, the proposed recommendations were not effectively followed.

**(E) Growing ESG Practices among BFIs in Cambodia**

All industries must prioritize sustainability as a business initiative. Many traditional banks, financial institutions, and progressive banks have begun to embrace sustainability in the banking and financial services sector by incorporating ESG into their business priorities, adopting sustainable initiatives, and driving alteration in the sector (Mobiquity, 2021). There is a clear public demand for sustainable finance, as evidenced by research from 2020, that nearly 40% of consumers would switch banks to a more sustainable alternative (Abramson, 2020). Market power was a significant factor in determining profitability among conventional banks but not among sustainable banks. Sustainable banking practices increased profitability (Olmo, Saiz, & Azofra, 2021). Many international organizations have prioritized sustainable development, but one of the most significant steps was taken by the United Nations (UN) in 2015 with the adoption of the SDGs, which aim to address several global challenges by 2030, including the reduction of poverty, inequality, illiteracy, climate change, environmental degradation; and defending dignity and human rights. Promoting banks' participation in sustainable activities, which entails integrating environmental protection, social responsibility, and financial benefit into management and business operations, is one potential way to enhance banks' reputation and restore credibility (ibid.).

Despite the recent COVID-19 pandemic and the Russia-Ukraine war, Cambodia's banking and financial sector has significantly improved in their general operations, depositing and loaning. The industry continues to grow, albeit slowly. The CSFP, adopted by 47 bank members in Cambodia since 2019, also included ESG as a voluntary initiative. The practice of ESG has increased, and more banks are fortifying their commitments to greening their financial operations and putting related and doable tasks on their customers; for instance, the ARDB, ACLEDA. Some banks perform better than locally focused banks because they are connected to foreign shareholders, joint ventures, or even foreign loans. For banks in Cambodia, it is still difficult to fully realize the benefits of ESG practices.

**(F) Increasing Engagements on ESG and Sustainability among BFIs**

According to interview notes and a review of existing literature, there has been an increase in interest and attitudes toward social and environmental obligations among

Cambodian private banking and financial corporations. The study finding confirms that, though there has been a less strong mandatory push from the government, internal policies and practices have been developed and performed to some extent progressively in the forms of CSR and sustainability-oriented initiatives (i.e., resource consumption management or emission reduction). This evolving situation may also be influenced by the regional and global movements for holding the private sector more accountable for the impacts it may have on society and the natural world. In an increasingly globalized, interconnected, and competitive world, managing environmental, social, and corporate governance issues is part of the overall management quality required for companies to compete successfully. Companies that outperform in these areas can increase shareholder value by, for example, properly managing risks, anticipating regulatory action, or entering new markets—all while contributing to the long-term development of the societies in which they operate (The Global Compact, 2004).

Furthermore, these issues can significantly impact reputation and brands, which are becoming an increasingly important component of company value. The evidence gathered emphasizes that BFIs in Cambodia are concentrating on generating profits while also paying back to society through enhanced corporate governance and social contribution. The concept of sustainable development—balancing the environment, economics, and social spheres—has been embedded, internalized, and referenced in their banking and related financial services and operations.

Sustainability is rapidly gaining importance in society, raising awareness about issues such as climate change, social inequality, and corporate misconduct, and it is quickly changing the market environment (KPMG International, 2021). Sustainable financial products are in high demand among investors worldwide. Sustainability and corporate behavior are influencing financial institutions' reputations and business success. For some time to come, the trend toward sustainability has the potential to profoundly alter Cambodia's global and local banking and financial sectors.

## **(G) Current Policies on Related ESG in Banking and Financial Sector**

- There is an initial introduction of sustainability in Bank and Financial Sector in Cambodia. The approval of the **Environmental and Natural Resource Code** in June 2023<sup>6</sup> marks a significant milestone in strengthening the conservation of natural resources and wildlife, enhancing climate resilience, promoting the use of renewable energy, and establishing sustainable urban environments that effectively manage waste and pollution. Chapter 5 of the Code specifically addresses the need for additional assessments to be conducted in conjunction with Environmental Impact Assessments (EIA). Article 678 of the Code focuses on Sustainability Risk Assessment, which mandates that financial institutions and legal entities providing financial guarantees, loans, or insurance for activities or projects must conduct a comprehensive assessment of sustainability risks. This assessment ensures that proposed activities or projects are thoroughly evaluated for their environmental impacts throughout the design, environmental management, operations, and decommissioning phases. The sustainability risk assessment encompasses the costs associated with conducting the EIA, implementing Environmental Management Plans

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<sup>6</sup> It was officially sealed off the King of Cambodia on 29 June 2023. It has been developed since 2015. The code can be downloaded from <https://data.opendatacambodia.net/en/dataset/15618852-c2af-4d8c-950e-dea975724bbe/resource/cf717a49-0fe2-4d69-b55f-f5012c55017d/download/environment-and-natural-resource-code.pdf>

(EMP), compensation expenses, payments for ecological services, and sufficient financial guarantees for closure, rehabilitation, maintenance, or decommissioning when required to meet other legal obligations (Article 679). Failure to comply with the sustainability risk assessment renders financial institutions and legal entities responsible for any damages, losses, or compensations resulting from the environmental impacts caused by the activities or projects financed by their entities (Article 680). These provisions emphasize the importance of accountability and responsibility in ensuring the protection of the environment and mitigating potential adverse effects of development activities.

- Green finance has been one of the central focuses of green growth in Cambodia (National Council on Green Growth, 2013). The National Policy and Green Growth 2013–2030, developed by the National Council for Sustainable Development (NCSD), aims to balance economic growth with the environment, society, and culture. In pursuit of such a vision, RGC has attempted to promote responsible institutions or ministries to certify green initiatives, including green macro-finance, green credit, green tax, and payments for environmental services. Moreover, a green concept is being promoted at all levels, and green indicators are being developed to assess the efficiency and effectiveness of green growth and the green and blue economies. Green finance, as defined by the policy, refers to financial instruments such as checks, shares, bonds, corporate bonds, treasury bills, assets, property, credit, and insurance, as well as the financial market, to enhance the purchases and sales of green products, services, and other green operations and productions (National Council on Green Growth, 2013).
- The current **Cambodian Bank Code**, which goes into effect in January 2022, mandates and advises on ESG-related frameworks such as good governance, executive management, responsible financing, conflict of interest, accountability and dependability, responsibility and transparency, data privacy, service standards, disclosed information, discrimination, ethics, and dispute resolution. Conceptually, these principles are well responsive to ESG. The Code requires the banking sector to ensure that their operations do not cause or contribute to environmental damage or degradation of the social fabric of local communities, particularly Cambodia's cultural heritage.
- Cambodia launched the **Cambodia Sustainable Finance Initiative (CSFI)** in September 2016 to establish best practices and educate its members on sustainable banking practices. In collaboration with the NBC and the MoE, the ABC has committed to developing a set of sustainable finance principles known as CSFPs. These principles eventually result in the development of voluntary industry environmental and social lending standards that are expected to be incorporated into local banking and financial policies. Later, on July 31, 2019, a tripartite MoU (NBC, ABC, and MoE) was signed to set out more realistic 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) information and document sharing related to sustainable financial practices; (3) collaborative public awareness raising on sustainable financial principles; (4) technical collaboration and assistance in developing and implementing sustainable financial principles; and (5) cooperation and coordination with relevant organizations or institutions to develop and implement sustainable financial policies.



- **Green Bonds** have become more attractive in the Cambodian financial market. Green bond funds must be used for green businesses or investments that do not significantly harm the environment. The Cambodia Securities Exchange has nine stocks and five bonds listed on its Main and secondary Growth Boards. These companies have raised approximately \$281 million (Kunmakara, 2022). The recent survey by ADB released in September 2022 briefs that institutional investors and underwriters express their significant interest in green bonds. The renewable energy sector, energy efficiency initiatives, waste, water management, and the circular economy are widely recognized as the sectors with the highest green bond growth potential (ADB, 2022). Investors and underwriters see green bonds as having a positive image, low funding costs, and a diverse investment portfolio. However, the survey records key challenges regarding resource insufficiency, limited awareness, and unclear regulatory guidance that slow the development and growth of the green bond market in Cambodia. In terms of policy options, both investors and issuers emphasized the importance of government tax incentives, preferential treatment for ESG financial products, and an expansion of the green project pipeline. On the other hand, issuing green, social, and sustainable bonds would provide tax incentives and brand enhancement for private companies. Companies can demonstrate their commitment to mitigating global climate change and ensuring the welfare and well-being of future generations (Sothear, 2022). As long-term benefits of green bonds, more renewable energy projects can be financed as a result of these bonds, bringing electricity to more households and businesses, more women-led entrepreneurs can gain better access to finance, and more affordable schools, hospitals, and houses can be built to help the poor and vulnerable.

#### (H) Practices of ESG-related compliance among BFIs in Cambodia

- **Still, there is no detailed work plan for the 2019 MoU.** The ABC's 2021 Report recommends that NBC, ABC, and MoE develop a detailed joint work plan to map out key activities in mainstreaming environmental and social compliance in the banking and financial sector. The '*2019 Roadmap*' was only a brief, focusing on two major activities: assisting members with principle implementation and building capacity among ABC members. Such a work plan does not exist, and the activities are performed on a '*business as usual*' and '*ad hoc*' basis. ABC acts as the active secretariat for NBC to implement the MoU<sup>7</sup>. The review of the 2021 Annual Report of ABC reveals that CSFP-related activities are those of the partners who engage ABC instead; there are no original initiatives, plans, or activities proposed or organized by ABC regarding sustainable or green finance in Cambodia. Notably, the Sustainable Finance Forum (SFF) is mentioned as the only activity performed by ABC in 2021. Moreover, the 2021 Annual Report shows that NBC does not promote CSFP or related green financing in Cambodia. The report does not mention any associated initiatives or activities, confirming the non-existence of the regulator's interests; therefore, progress is difficult to demonstrate.

Despite the collaborative efforts from NBC, ABC, and MoE within the spirit of the 2019 MoU, **there has been no concrete progress in terms of implementing policies and providing guidance on ESG or related compliance for BFIs since the launch of the**

**2021 Report**<sup>8</sup>. There is a disconnect between Cambodia's environmental regulations, NRM, and the corresponding frameworks, and the policies and operations within its banking and financial sector. These two sectors, environment and BFIs, are still separate entities, and there is a limited collaboration or joint initiatives, apart from the CSFI, which has seen limited implementation. While some individual banks are gradually adopting ESG-related initiatives, others are more comprehensive in their CSR investments. However, the lack of a detailed work plan outlined in the MoU suggests a lack of concrete actions and desired changes in ESG practices within Cambodia's banking and financial sector. Consequently, the MoU is perceived as a form of 'greenwashing' rather than a genuine effort to make meaningful practice changes.

- **Among Cambodian banks, some ESG practices have been observed.** Among the 34 banks submitting their 2021 annual reports to NBC, only 28 reports can be publicly downloaded and reviewed. Among the reviewed reports, six did not mention their CSR or other related activities, providing no information. Only three banks mentioned adopting CSFPs and further developing internal policies and frameworks to ensure compliance and performance. For example, Prince Bank has a sustainable finance policy framework, and Sathapana Bank has environmental and social sustainability management practices.

Five banks i.e. CIMB Bank, Maybank, PPCB, RHB and FTB, mentioned the term, concept, and practices of ESG, but only two demonstrated significant progress and outcomes. Phnom Penh Commercial Bank is the only ESG-rated institution in 2020 and 2021 and received an A+ for two consecutive years from the Korea Corporate Governance Service and an A from Morgan Stanley Capital International. Maybank comes in second when it comes to committing to ESG performance. Six banks focused on internalizing CSR or ESG-related responsibilities within their banking operations systems, developing energy, water, paper, waste management policies, and other environmental, social, and sustainability performance indicators. Ten banks primarily engaged in traditional CSR practices, which were more outreach-oriented than compliance-oriented within their institutional systems. Their CSR practices reach out to communities ad hoc or irregularly and do not reflect their core values. The remaining banks do not mention their CSR activities in their annual reports suggesting that there are none or very few.

It is evident that CSR practices alone do not equate to ESG adoption. The lack of actual ESG practices among Cambodian BFIs stems from a lack of awareness and the absence of national policies and guidance to support such practices. In short, the practice of CSR is not ESG adoption as no transparency is added to the CSR challenges. It can be concluded that BFIs in Cambodia are at the nascent stages of ESG practices. It has been noted that there are specific challenges in promoting ESG among BFIs, for instance, the lack of internal financial and human resources and limited awareness and understanding of ESG. These can be addressed through continued ESG awareness raising by NBC and ABC and developing a work plan to structure long-term ESG policies and to design the implementation system.

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<sup>8</sup> The report was entitled "Environmental Impact Assessment Compliance in Banking and Financial Institutions in Cambodia", launched on 14 December 2021. The report can be downloaded at <https://www.ngoforum.org.kh/wp-content/uploads/2022/09/Report-on-Compliance-of-ESIA-in-Finance-and-Banking-Sector-in-Cambodia-Eng.pdf>

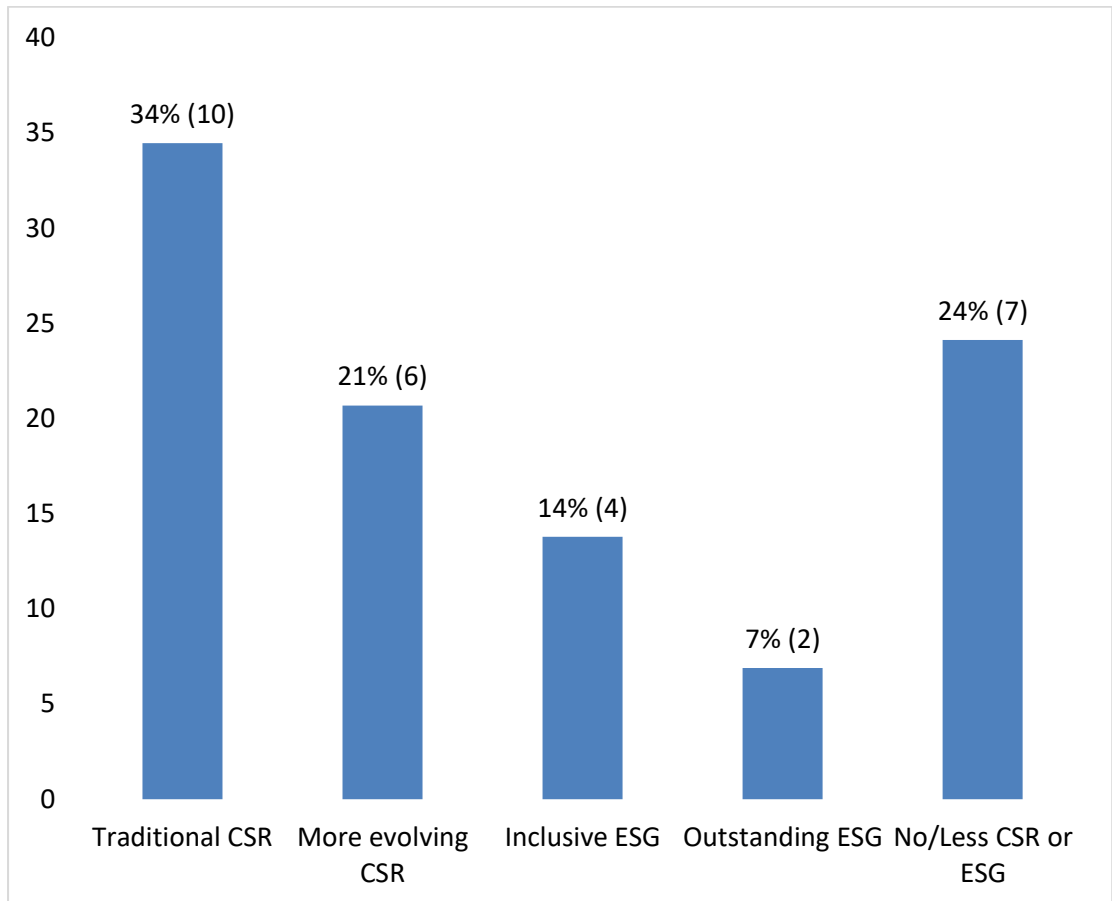


Figure 1: Current practices of ESG/CSR among BFIs in Cambodia (author)

Figure 1 provides a visual representation of the diversity observed among the reviewed BFIs in terms of their compliance or adoption of sustainability or social responsibility practices within their corporations and the impact they have on their clients. According to the study, approximately 34% of the reviewed BFIs in Cambodia have remained conventional, showing no significant changes in their policies and practices towards the current concept of sustainability. This suggests that these institutions have yet to fully embrace and integrate sustainability principles into their operations. Furthermore, the study indicates that around 24% of the reviewed BFIs show a lack of concern regarding the negative environmental and social footprints generated by their financial operations. These findings highlight a concerning gap in understanding and addressing the potential impacts that these institutions may have on the environment and society.

On a positive note, this study identifies that 7% or 2 banks have made significant progress in championing their ESG practices. These institutions have undergone evaluations by recognized third parties, indicating their commitment to integrating sustainability principles into their operations. The remaining BFIs, accounting for a significant portion, are described as remarkably progressing towards and transforming into ESG-oriented institutions or inclusive CSR practitioners. This suggests that these institutions are actively working towards aligning their policies and practices with sustainability principles, although they may still be in the process of fully implementing them.

**(I) Documented Good Practices or Start-Ups on ESG**

Examining published annual reports submitted to the NBC for the fiscal year 2021

reveals several noteworthy ESG practices. These examples highlight essential aspects of ESG adoption in Cambodian BFIs. While these practices serve as models for others to follow, it is critical to note that they are not yet sufficient, and further efforts are needed to advance ESG adoption and meet the country's sustainability and green financing goals. Unfortunately, a detailed analysis of why these cases demonstrate better ESG practices than others is not available due to restrictions on meeting with individuals in charge during the data collection process.

- **Phnom Penh Commercial Bank (PPCB)** is a subsidiary of JB Financial Group (the Group). The Group has demonstrated a strong commitment to ESG principles locally and globally. It has set ambitious targets of achieving net zero emissions from direct and indirect sources by 2035 and from financed emissions by 2045. The Group's ESG performance has received high ratings, earning A+ and A ratings from KCGS (Korea Corporate Governance Service) and MSCI (Morgan Stanley Capital International) for 2020 and 2021, respectively. In 2021, the Carbon Disclosure Project rated the group "B" for its work on climate change. As part of its efforts to promote ESG, the Group has developed related policies and mechanisms, such as a climate risk response system, environmental management principles, and company-wide GHG mitigation strategies, including sales branch digitalization, Green Premium, and REC procurement, green financial products, and ESG bonds. The ESG Committee is established to manage related ESG performance in conjunction with the bank's business strategies. To oversee ESG performance in alignment with the bank's business strategies, an ESG Committee has been established. The bank proactively identifies and addresses physical and transitional financial risks, aiming to develop innovative green financial solutions and solidify its position as an eco-friendly company.
- **The Maybank 2025 Strategy**, known as M25, prioritizes sustainability as one of its three strategic priorities. M25 aims to instill ESG considerations as fundamental to Maybank's future and deliver sustainable solutions for the communities it operates in through ambitious long-term targets. Maybank aspires to be a change agent by making meaningful contributions to a better world and collaborating with clients to achieve long-term success. The bank's sustainability strategy is based on three fundamental pillars: enabling a responsible transition to a low-carbon economy, empowering communities, and setting a good governance example. In addition, the respective work streams within these pillars are grouped into four key areas for better coordination and implementation, given the linkages among the work streams to facilitate the effective implementation of the Sustainability Pillars. These four categories are sustainable solutions, community, walking the talk, and culture building. Each group has an overarching goal, and the four key commitments are established to help them achieve their goals. This is linked to the M25 goal of being a '*regional ESG leader*' and has framed and laid the groundwork for the targets that have been established. Moreover, the highest level of corporate governance is responsible for Maybank's sustainability strategy. The Group Board of Directors (the Board) oversees the Group's sustainability strategy and performance. Sound, sustainable governance is further cascaded across the group, with specific responsibilities assigned across multiple levels of management. The establishment of the Board Sustainability Committee (BSC), the EXCO Sustainability Committee (ESC), and the appointment of our Chief Sustainability Officer (CSO) in 2021 marked significant milestones for the bank's sustainability work.

- **ACLEDA Bank Plc.** inherits the mission of **Environmental and Social Sustainability (ESS)**, which requires ACLEDA to achieve strong, long-term financial returns while respecting the environment and community. The concept of the '*triple bottom line*' (people, planet, profit) is internalized to ensure that banking operations are not environmentally unfriendly. The bank has policies in place that prohibit participation in exploitative forms of forced or child labor, trade in weapons and munitions, gambling, casinos, brothels, regulated wildlife or wildlife products (Convention on International Trade in Endangered Species of Wild Fauna and Flora – CITES), and production or trade in radioactive materials or significant volumes of hazardous chemicals. Five full-time Environmental Officers regularly take responsibility, training, and refresher courses to coordinate ACLEDA's environmental activities and monitor performance. A system of monitoring and tracking resource usage has been implemented to inform the footprints of its operations on paper usage, energy and water consumption, and business travel. Regarding social responsibility, ACLEDA builds its corporate culture as a '*respective and inclusive organization*' for its staff, clients, and those engaged. Community outreach and support have been launched to maintain mutual interests and prosperity. Surprisingly, CSR was not mentioned in the 2021 Annual Report but was covered by the ESS.
  
- **The ARDB** has approved the **Green Financing Policy and Loan** since April 2022 in response to the CSFP. The objective is to offer both working and investment capital to green-oriented clients and businesses so that ARDB and borrowers reduce negative environmental and social footprints, production costs, and income efficiency. The concept of ESG has been mainstreamed into the policy. Green sectors along the value chain of agriculture and rural development businesses that use environmentally friendly technologies, support climate change resilience, and adapt to new technologies are prioritized by ARDB's Green Loan. Sectors such as renewable energy, hydroponics, aquaponics, energy efficiency, agroecological techniques, and waste management are under the scope of green loan schemes. Secure and unsecured green loans are the only two types in which environmental and social criteria are among the set evaluation factors before loan disbursement. For an insecure loan, clients can be granted a maximum of 5K and 200K for a secure loan, whose interest rate is between 9 and 10 percent. A loan over one million dollars may be granted, but only with the board of directors' approval. In performing such green loans, ARDB acknowledges some foreseen challenges, including slow transition (as green financing is relatively new in Cambodia), insufficient current investment flows, high costs and risks with low-interest rates, high up-front investment costs, limited information among borrowers, and limited capacity on green financing among stakeholders.
  
- **Foreign Trade Bank (FTB)**, with a registered capital of US\$79.5 million, is committed to managing **Environmental and Social Risks (E&S)** associated with its financial services and operations. The bank recognizes that its major E&S exposures are primarily in its lending and investment activities but strives to lead by example within the communities it operates in.<sup>9</sup> By integrating E&S considerations into its business practices, FTB aims to achieve its strategic objectives, support the developmental goals of the Cambodian government, and meet the needs of the Cambodian people while ensuring sustainable returns for its shareholders. To effectively manage E&S risks, FTB has established comprehensive policies and procedures, including:
  - Environmental and Social Risk Management (ESRM) policies and procedure

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<sup>9</sup> <https://ftb.com.kh/uploads/2023/07/FA-AR-2022-EN.pdf>

- Integration of ESRM in credit process is undergoing
  - ESRM Coordinator Function under Risks management
  - ESRM Accountability and Transparency Report on annual report
- 
- FTB is a signatory of the voluntary nine Cambodian Sustainable Finance Principles introduced by the ABC, demonstrating its commitment to sustainable finance. It places a strong emphasis on resource efficiency, adopting sustainable practices such as reducing utility usage, minimizing paper and plastic consumption, and promoting responsible waste management. FTB also pledges to avoid financing activities that significantly contribute to greenhouse gas emissions, actively addressing the issue of carbon emissions. Moreover, FTB is dedicated to promoting financial inclusion and improving access to sanitation, water, and electricity. The bank has entered into a US\$20 million long-term financing agreement with Proparco, complemented by a €1.5 million technical assistance grant from the French government, to support small water and electricity enterprises in rural and peri-urban areas of Cambodia.

## VI. STUDY DISCUSSIONS

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- **(A) While the Environment and Natural Resource Code 2023 introduces some aspects related to ESG compliance, there is currently no specific guideline or orientation provided for financial institutions in this regard.** The inclusion of the term "sustainability risk assessment" within the Code implies a connection to the concept of ESG, but an official definition is not clearly stated. This initial introduction is a positive development, but the Code does not elaborate on the subsequent measures that would translate this assessment into practical implementation. It is important to note that certain legal documents may include additional clauses guiding the MoE on how to proceed with requirements such as sustainability risk assessment. However, the Code itself does not specify the development of guidelines to facilitate the actual implementation of these practices. As a result, a broader and ambiguous standard of compliance will exist, potentially leading to vague implementation or performance that is based on ad-hoc approaches.
- **(B) The National Bank of Cambodia (NBC) has shown a growing commitment to ESG considerations and related compliance measures through formal attention and significant efforts.** While the tripartite MoU on the Cambodia Sustainable Finance Initiative (CSFI) involving the NBC exists, recent developments indicate that the NBC has been actively pursuing ESG and related compliance matters. These efforts were highlighted during the review of recent progress and discussed in the context of a validation workshop, where ESG practices and green financing principles were mentioned. The NBC's increasing focus on ESG and related matters demonstrates its dedication to promoting sustainable finance and responsible banking practices. The collaboration and participation in initiatives such as the CSFI indicate a positive trajectory towards incorporating ESG considerations into the country's financial sector. By giving formal attention to ESG and actively engaging in discussions and workshops, the NBC is taking steps to foster a more sustainable and environmentally conscious financial landscape in Cambodia.
- **(C) Significant progress has been made in raising awareness and providing technical training on ESG matters among BFIs.** Recent findings indicate that there have been formal initiatives and efforts to disseminate knowledge and training on ESG to member banks. The ABC's newsletter of July-August 2022 highlighted that on July 14, the ASEAN Low Carbon Energy Programme (LCEP) successfully completed the fifth and final training series on ESG Risk Management in collaboration with the NBC, with the participation of approximately 100 trainees. In 2023, a series of training programs related to ESG were jointly organized with the support of NBC and its partners, aiming to further enhance bankers' understanding and awareness of ESG topics. Furthermore, a recent initiative supported by UNESCAP called "Cambodia Sustainable Finance" demonstrates a significant step towards promoting a greener financial sector in Cambodia. This initiative serves as evidence of the growing momentum and commitment to integrate sustainability principles into the country's financial practices. These encouraging developments reflect a heightened focus on ESG considerations within the bank and financial industry in Cambodia. The collaboration between various organizations, such as LCEP, NBC, and UNESCAP, underscores the collective efforts to raise awareness, provide technical training, and foster a greater understanding of ESG principles among BFIs. By equipping bankers with the necessary



knowledge and tools, these initiatives contribute to the overall goal of creating a more sustainable and responsible financial sector in Cambodia.

- **(D) The term ESG is relatively new to BFIs in Cambodia, but there has been some inclusive and partially related performance in terms of CSR** so far. The participants in the study expressed a lack of understanding regarding the specific components of ESG and how they are applicable to the banking and financial sector. However, they were familiar with the concept of CSR and recognized it as a way to contribute to society in the areas where they operate. It is important to acknowledge that while CSR practices in Cambodia are inclusive and somewhat connected to ESG, they do not fully encompass the comprehensive and systematic nature of ESG principles. ESG is more mandated, widely inclusive, and systematic, whereas CSR is more voluntary and ad-hoc in nature. In Cambodia, CSR is typically voluntary, which means that BFIs are less strategically committed to fulfilling CSR obligations. Their focus tends to be more on social and corporate responsibilities rather than environmental management. They allocate budgets for various activities aimed at benefiting communities and improving their treatment of staff and partners. However, in terms of environmental initiatives, their focus tends to be more on outreach-oriented efforts rather than addressing internal institutional performance. On the other hand, the level of understanding of ESG principles among BFIs' staff remains limited. Practical implementation of ESG principles is most effective when there is an increased awareness among BFI practitioners.
  
- **(E) There is a common confusion between CSR and ESG among BFIs.** The concerns regarding the impact of corporations on environmental and social welfare have been growing in recent years, leading to the use of terms like ESG and CSR to describe corporate actions in this context (Gillan, Koch, & Starks, 2021). However, it was observed during interviews with BFIs that there is confusion among participants when asked to explain CSR. They tend to perceive CSR and ESG as interchangeable concepts and struggle to distinguish between them. This lack of clarity can be attributed to a limited awareness and information sharing within their organizations, as well as the absence of comprehensive guidance from regulatory bodies such as the NBC, ABC, and MoE. Moreover, it is important to address this confusion and enhance understanding within BFIs regarding the distinctions between CSR and ESG. While CSR focuses primarily on the voluntary initiatives taken by businesses to contribute to society and address social responsibilities, ESG encompasses a broader framework that includes environmental stewardship, social impact, and corporate governance. ESG factors are increasingly seen as essential criteria for assessing the long-term sustainability and resilience of businesses. To overcome this confusion, BFIs would benefit from educational initiatives and internal guidance that clarify the differences between CSR and ESG, including their respective objectives, principles, and implementation strategies. Regulatory bodies, such as the NBC, ABC, and MoE, can play a crucial role in providing clear guidelines and promoting awareness among BFIs about the significance of ESG and its distinctiveness from CSR. With improved understanding, BFIs can more effectively integrate ESG practices into their operations and decision-making processes, leading to more sustainable and responsible business practices.
  
- **(F) The practical implementation of the social (S) and governance (G) aspects of ESG is more prevalent compared to the environmental (E) aspect.** ESG encompasses three distinct segments, and while the Royal Government of Cambodia (RGC) has

imposed strict and functional obligations on private BFIs, focusing on standardized systems and performance, the emphasis has primarily been on ensuring effective and legal transactions and operations within Cambodia and abroad. The review and analysis of existing banking and financial regulations, as well as socially-related legal provisions encompassing labor policy, human rights, health and safety, corporate management, anti-money laundering, and financing terrorism, demonstrate the government's comprehensive vision and holistic governance in this sector. However, when it comes to environmental obligations within the private banking and financial sector, specific policies or guidelines are notably absent. There is a lack of frameworks addressing how this sector can reduce its negative operational impact or provide guidance to clients concerning environmental and natural resource management. As a result, the performance in the environmental aspect (E) of ESG is relatively low compared to the social (S) and governance (G) aspects. To improve the environmental performance of BFIs and enhance the E aspect of ESG, it is crucial for the government and regulatory bodies to develop and implement specific policies and guidelines. These should aim to mitigate the environmental footprint of the banking and financial sector, promote sustainable practices, and provide guidance for clients on environmental management. By incorporating environmental considerations into their operations, BFIs can contribute to the preservation of natural resources, minimize environmental risks, and align with global sustainability goals.

- **(G) The limits of substantial long-term outcomes regarding ESG practices among BFIs can be attributed to the generic and non-binding nature of the Cambodia Sustainable Finance Principles (CSFPs).** These principles were found to be very broad and voluntary, providing little concrete foundation for effective implementation. The study revealed that the responses of bank members to the CSFPs demonstrated limited progress. Instead, banks continued to focus on routine CSR activities without making significant adjustments to align with the CSFPs. Most of the banks examined in the study exhibited a lack of clear understanding on how to initiate ESG practices, approaching their commitments in a manner that mirrored the prevailing environmental protection context in Cambodia.

“The development of the principles and guidelines is a positive step, and crucially, the principles embody ownership on the part of key local stakeholders and a distinctive Cambodian perspective on the issues. Furthermore, by committing to the principles, members have increased the potential impact of the framework. However, some stakeholders have expressed concern that the principles lack transparency and enforcement and may not be enough given their voluntary nature.” – UNESCAP (2022, p.5)<sup>10</sup>

- This suggests that there is a need for more specific and actionable guidelines that outline entry points and implementation strategies for ESG practices within the bank and financial sector. To enhance the effectiveness of ESG practices among BFIs, it is crucial to develop more robust and binding frameworks that provide clear expectations and guidelines. These frameworks should offer concrete steps and measurable targets to facilitate the integration of ESG principles into the operations and decision-making processes of BFIs. By establishing a more structured approach to

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<sup>10</sup> United Nations, Economic and Social Commission for Asia and the Pacific, Green and Sustainable Financial Market Analysis: Financing Cambodia's Future (Bangkok, United Nations 2022), available at <https://www.unescap.org/kp/2022/green-and-sustainable-financial-market-analysis-financingcambodias-future>

ESG implementation, BFIs can align their practices with global sustainability standards and contribute to the long-term environmental and social well-being of Cambodia.

- **(H) There is a sense of optimism regarding the implementation of ESG practices among BFIs, but the existing incentives for implementation appear rigid.** The participants interviewed acknowledged the value that ESG added to their operations. However, they also emphasized the need for substantial financial and human capital investments to effectively integrate ESG into their organizations. The participants highlighted the importance of introducing incentive schemes that reward BFIs for taking proactive steps in implementing ESG practices. However, they noted that such incentive schemes were currently lacking, resulting in limited progress in implementing ESG practices. To address this issue, the NBC and ABC can explore the possibility of linking executive compensation to ESG performance for BFIs. This can be done once BFIs have identified and prioritized material ESG issues and established meaningful goals. By establishing a link between executive compensation and ESG performance, BFIs can be internally motivated to take accountability for achieving key strategic ESG outcomes. Furthermore, external pressures from local and international investors, as well as other stakeholders, can serve as a driving force for BFIs to prioritize and improve their ESG performance. Governments can also play a role by implementing tax incentives and other fiscal policy measures to incentivize investment and capital reallocation towards more environmentally and socially sustainable activities. By altering the relative prices of sustainable and unsustainable activities, governments can stimulate market responses and encourage BFIs to align their operations with ESG goals.
- **(I) The commitment of the Ministry of Environment (MoE) to promote ESG practices and ensure compliance within the banking and financial sectors has made some progresses but not been substantial.** Despite the tripartite MoU signed in 2019, there have been limited tangible outcomes from the MoE in terms of raising awareness and integrating ESG practices into the operations of BFIs. There are limited formal assignments, guidance, or meetings to facilitate progress in this area. Furthermore, there is no concrete evidence indicating specific advancements or notable progress in the realm of green finance, despite its inclusion in the National Policy on Green Growth 2013-2030 and the Article 678 of the new Code, which mandates a "sustainability risk assessment" for financial institutions. According to the code, all financial institutions and legal entities involved in providing financial guarantees, financial insurance, or loans for activities or projects must conduct a thorough assessment to evaluate the potential environmental impacts throughout the lifecycle of the proposed activities or projects, encompassing their design, management, operating environment, and closure. However, the absence of further details or guidance on the execution of this assessment leaves uncertainties regarding its implementation. The lack of specific instructions or recommendations makes it challenging for financial institutions to effectively carry out the sustainability risk assessment as required by the code. Despite the existing policy framework and regulatory provision, the current situation suggests a need for more comprehensive guidelines and support to facilitate the practical implementation of green finance initiatives. Clearer instructions, methodologies, and best practices would be valuable in assisting financial institutions in conducting meaningful sustainability risk assessments and incorporating environmental considerations into their decision-making processes.

- The annual report of the National Council for Sustainable Development (NCSA) or the MoE is not publicly accessible. As the leading national body responsible for driving and promoting green development and financing, the MoE plays a crucial role. The policy framework has outlined commitments and strategies to support green growth, including green finance. It is expected that concrete outcomes and advancements would emerge from these green initiatives. Green finance is essential in facilitating sustainable economic growth while ensuring environmental sustainability. To achieve this, there is a need for financial mechanisms that can provide capital funding to industries pursuing sustainable practices. It is crucial for the MoE to closely monitor the performance and effectiveness of the 2019 MoU to ensure its productivity and long-term sustainability. This includes actively engaging with BFIs, providing clear guidance, and establishing transparent reporting mechanisms to track progress and hold stakeholders accountable for their commitments.
  
- **(J) ARDB has demonstrated a positive and encouraging start in the realm of green lending. However, the focus of this practice has primarily been on expanding its own product offerings rather than ensuring strict adherence to ESG compliance by both the bank and its clients.** While green lending may not have yet gained recognition as a standardized ESG practice, it does indicate that certain BFIs are moving towards prioritizing environmental protection and nurturing the planet. To further strengthen its ESG practices, ARDB should enhance its internal systems and processes to foster the integration of ESG principles throughout the organization. This entails developing internal policies and practices that align with ESG goals and extending related obligations to its clients. The implementation of ESG should be a shared responsibility between BFIs and all involved parties, particularly clients who utilize approved funds for their investments. It is important to acknowledge that these investments may carry environmental and social risks that need to be addressed. Currently, ARDB does not impose any secondary obligations on its clients regarding ESG considerations.<sup>11</sup> To address this gap, ARDB should consider establishing mechanisms that encourage clients to adhere to ESG principles when utilizing the bank's services. This can include incorporating ESG criteria into loan agreements and requiring clients to disclose and mitigate any potential environmental or social risks associated with their projects or investments. By bolstering its internal ESG framework and engaging clients in responsible practices, ARDB can reinforce its commitment to sustainable finance and contribute to positive environmental and social outcomes. Additionally, promoting ESG compliance among clients can help mitigate potential risks and promote long-term sustainability within the banking sector.
  
- **(K) The approach and method employed by the NGOF to share the 2021 report with stakeholders proved to be ineffective and lacked promise.** Relying on the NBC and ABC to disseminate the report to their members or partners yielded unsatisfactory results. While this approach is commonly utilized, it would have been more beneficial to directly share the report with the members, ensuring full access, even if it entailed some duplication. It is important to clarify that there was no wrongdoing; in fact, more information was provided than required. Moreover, it is important to note that as of the follow-up study, the NGOF had only shared the draft version of the report for validation purposes, not the final report. Additionally, the dissemination workshop conducted in 2021 only invited representatives from the NBC and ABC, with only a few members in attendance. This was a misstep, as a broader and more relevant

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<sup>11</sup> Slide presentation on Green Financing by Mr. Thai Serdy, Deputy-Head of Credit Department of ARDB on 27 April 2022.

group of participants should have been included, especially considering that the workshop was conducted virtually, utilizing conferencing software such as Microsoft Teams that could accommodate up to a hundred participants. The study findings indicate that the report was not adequately shared, as some bank members interviewed expressed unawareness of its existence when questioned. To improve the dissemination process, it is recommended that the NGOF adopts a more proactive and direct approach to sharing its reports with stakeholders. This can involve directly providing the report to bank members, ensuring they have full access to the information. Additionally, future workshops and validation processes should include a wider range of participants, encompassing relevant stakeholders from the banking sector and beyond. This will help facilitate better engagement, knowledge sharing, and awareness among all key parties involved, promoting a more effective and inclusive dissemination of important reports and findings.

- **(L) Making a prompt follow-up with stakeholders regarding the adoption of recommendations proposed in the 2021 report shortly after its dissemination was an error.** The report, launched in December 2021, presented information on the current state of EIA compliance in Cambodia's finance and banking sectors. However, it lacked authoritative binding power to compel institutions to implement the recommendations. Moreover, expecting visible outcomes within a short timeframe was unrealistic, even if the recommendations were adopted. The follow-up study occurred within a year and a half after the report's release, which provided insufficient time for financial institutions to implement the recommendations and demonstrate tangible results. It is important to note that government regulations allowed institutions a favorable timeline, granting a minimum of three years to achieve initial outputs. To address this issue, it is necessary to adjust the approach to follow-up activities. Instead of conducting a rapid assessment within a short period, a more realistic timeline should be established to allow financial institutions ample time to adopt and implement the recommendations. Providing a reasonable timeframe ensures that institutions can effectively incorporate the necessary changes and showcase concrete progress. This approach acknowledges the complexity of organizational processes and the time required to achieve meaningful outcomes. Additionally, it is crucial to establish mechanisms to encourage and incentivize institutions to adopt the recommendations. This can include offering support, guidance, and resources to facilitate the implementation process. Regular monitoring and evaluation can be conducted over an extended period to assess the progress made by financial institutions in adopting the recommendations and achieving the desired outcomes.
- **(M) Several key components are essential to define BFIs committed to ESG principles.** Understanding how ESG is organized and implemented within BFIs is a crucial question. To effectively portray BFIs as ESG-oriented, the following key components must be incorporated into the internal systems of the financial institutions:
  - BFIs need to establish an ESG or related policy as a general guide for their commitment. This policy outlines the institution's goals, missions, and vision, providing a framework for ESG implementation.
  - They should then develop a strategy and action plan that aligns with the policy. These plans define tasks and actions necessary to achieve the desired ESG outcomes and help translate the policy into practical steps.
  - BFIs must designate a dedicated unit or department overseeing the ESG plan,

strategy, and policy. These professionals and experienced employees ensure that the commitments are effectively planned, implemented, monitored, and revised over time for sustained performance.

- Further, BFIs need to establish a robust monitoring and reporting system for ESG integration. This includes creating key performance indicators (KPIs), defining performance indicator criteria, developing internal processes, and generating sustainability reports. These mechanisms ensure the effective implementation of ESG practices, and progress is tracked.
- Allocating a specific budget for ESG commitments is crucial to ensure that investments in ESG initiatives yield the desired results outlined in the policy. BFIs should have an annual ESG budget approved by corporate management or shareholders, as it helps motivate employees and enhance operational efficiency.
- Finally, BFIs should establish a support system and incentives for clients and other relevant stakeholders to encourage their active participation in meeting ESG obligations. Recognizing that sustainability is a collective effort, BFIs should engage financed clients and key affiliated agencies to promote and achieve the goals outlined in the ESG policy. ESG implementation should not be solely the responsibility of BFIs; it requires collaboration and engagement from various stakeholders to create a sustainable future.

## VII. CONCLUSION

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The banking and financial sector in Cambodia plays a vital role in driving economic growth by providing capital for investments and facilitating financial transactions. However, certain projects funded by these institutions have had adverse effects on the environment and local communities, such as encroachment on private land and degradation of natural resources. The pursuit of profit often takes precedence over social concerns as BFIs compete for market share, increasing the likelihood of risks and hazards. It is undeniable that BFIs bear responsibility for these negative occurrences. While CSR has been widely practiced to demonstrate responsibility, its implementation has not been fully optimized. The introduction of ESG principles has provided a stronger framework for BFIs to address and mitigate the negative impacts of their operations. MoE has taken some initial steps to promote ESG and related compliance within the banking and financial sector, as evidenced by the inclusion of sustainability risk assessment in the Environment and Natural Resource Code 2023. However, there is currently a lack of specific guidelines detailing the procedures and inclusion of ESG factors in conducting the risk assessment.

Through various triangulation methods, the report concludes that BFIs in Cambodia have indeed engaged in CSR practices, even in the absence of mandatory requirements. However, there is limited knowledge and progress in integrating ESG principles into their operations. National legislation and regulations primarily focus on the social (S) and governance (G) aspects, with less emphasis on environmental (E) compliance. The environmental component is more of an obligation for direct investors or developers in the non-financial sector. Presently, Cambodian legislation does not impose mandatory requirements on BFIs to ensure environmental compliance or enforce obligations on their clients to minimize risks or avoid impacts arising from their operations. The Cambodian Sustainable Finance Principles (CSFP) are being piloted, but there is a need for greater promotion and awareness of sustainable financial principles. Many local BFIs are still uncertain about how to incorporate CSR or ESG into their operations, and only a few have made significant progress.

The NBC and MoE have engaged in discussions and achieved promising progress on CSFP-related initiatives since its launch in 2016. However, further efforts are required from the ABC and its Sustainable Finance Committee (SFC) to actively promote and enhance knowledge among their members regarding sustainable financing principles within the constraints of their limited capacity and experience. Currently, there are no specific or sectoral guidelines proposed by the NBC and MoE to establish a pathway for BFIs to follow in adopting CSR and ESG practices. The report reveals that the performance of CSR or ESG among BFIs in Cambodia remains unstructured and lacks long-term strategic direction. Therefore, it is crucial to provide comprehensive advice and guidance to BFIs to help them internalize CSR and ESG principles and extend these principles to their clients, as achieving sustainability requires collective efforts.

While ESG principles and sustainability goals have gained increasing priority in recent years in Cambodia, the financial industry still faces challenges due to the absence of fully established rules for ESG investment from regulators and investors. It is essential for regulators, investors, and BFIs to collaborate in developing robust frameworks and guidelines that incorporate ESG considerations, ensuring the alignment of financial activities with sustainable development objectives. By embracing ESG principles and working towards sustainability, BFIs can contribute to positive environmental and social outcomes while maintaining their role in driving economic growth.



## VIII. RECOMMENDATIONS

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- In light of the absence of a **specific guideline for sustainability risk assessment**, it is essential to address this gap and establish subsequent guidelines or instruments that offer clear direction and instructions to financial institutions. These guidelines would serve as a vital framework, enabling financial institutions to effectively navigate the complexities of ESG compliance. By incorporating sustainability risk assessment, these guidelines would promote a more structured and cohesive approach to ESG principles within the sector, ensuring consistent application and fostering a culture of sustainability.
- NBC should review the MoU and collaborate with ABC and the MoE to investigate **policy and performance alternatives concerning ESG practices for BFIs**. It is advisable to involve an external consultant to develop a range of options and suggest strategies for effectively implementing ESG principles in Cambodia's banking and financial sectors. By revisiting and reassessing the existing MoU, the NBC, ABC, and MoE can identify areas where enhancements and amendments can be made to promote ESG integration among BFIs. This collaborative effort will allow for a comprehensive exploration of policy frameworks, regulatory measures, and performance indicators that can drive sustainable practices within the industry.
- Consistent with the provisions of the 2019 MoU, the NBC, the ABC, and the MoE should give paramount importance to **raising public awareness and enhancing capacity building on ESG practices among BFIs and the general public**. This objective can be accomplished through the creation of informative digital materials and their widespread distribution via meetings, workshops, public forums, training sessions, and social media platforms. Funding for these initiatives can be secured through internal resources or by forging partnerships with development organizations. Adhering to the principles outlined in the 2019 MoU, the NBC, ABC, and MoE should place significant emphasis on promoting understanding and knowledge of ESG principles within the banking and financial sectors and among the wider population. This can be achieved by designing and developing comprehensive informational materials that effectively communicate the significance and benefits of ESG integration. These materials should be accessible in digital formats to facilitate easy dissemination and reach a broader audience.
- To effectively promote ESG practices in the banking and financial sectors, various platforms and channels should be used, including meetings, workshops, and public forums. Training sessions can equip BFIs and industry professionals with the necessary skills to incorporate ESG considerations into their decision-making processes. Social media platforms can also enhance outreach and engage a wider audience. Funding for awareness and capacity-building initiatives can be secured through internal financial resources allocated by the NBC, ABC, and MoE, or through partnerships with development organizations. By prioritizing public awareness and capacity building, the NBC, ABC, and MoE can foster a culture of sustainable finance and responsible banking practices in Cambodia, allowing BFIs and the general public to actively participate in and contribute to the country's sustainable development goals.
- NBC, ABC, and MoE are urged to develop explicit policies or guidelines outlining ESG

requirements for the banking and financial sector – a minimum standard shall be developed. These guidelines should promote best practices and establish a robust monitoring system to ensure adherence and compliance. The guidelines should outline specific ESG requirements, including environmental risk assessment, mitigation strategies, and sustainable financing practices. They should also encourage optimal environmental practices, incorporating incentives like preferential loans or grants for BFIs that demonstrate exemplary sustainability performance or invest in environmentally friendly projects. This can stimulate a culture of responsible banking and sustainable finance in the sector. Moreover, a robust monitoring system is also essential to ensure compliance with the prescribed ESG guidelines. This can involve regular reporting requirements, environmental audits, and independent assessments to evaluate the extent to which BFIs are meeting their ESG obligations. Implementing a monitoring system can identify deviations or non-compliance promptly, fostering accountability and reinforcing the importance of environmental responsibility. This comprehensive approach will contribute to the sustainable development of Cambodia by ensuring that BFIs operate in an environmentally responsible manner and actively contribute to the preservation and protection of the country's natural resources.

- NBC, ABC, and MoE are urged to explore incentives to promote and strengthen ESG principles in the banking and financial sector. This could include fiscal policies or benchmarking practices sourced from the region. By studying successful models in neighboring regions, the NBC, ABC, and MoE can gain insights into designing and implementing effective fiscal policies or benchmarking practices. One potential incentive is the introduction of fiscal policies tailored to reward BFIs that demonstrate exceptional ESG performance, such as tax incentives, reduced interest rates on loans, or preferential access to funding sources for initiatives aligned with sustainable development goals. Benchmarking practices can also be explored to motivate BFIs to strive for ESG excellence. This would foster healthy competition, innovation, and continuous improvement in ESG implementation across the banking and financial sector.
- NBC and ABC shall schedule regular meetings with MoE to ensure continuous progress in providing guidance, training, and policy formulation for BFIs regarding ESG practices. These meetings shall be held at three-month intervals to maintain momentum in advancing ESG initiatives. The meetings will allow stakeholders to exchange updates, discuss emerging trends, and discuss challenges related to ESG practices. They will also review the effectiveness of existing ESG initiatives and identify areas for improvement. The meetings will also allow stakeholders to address any challenges or barriers encountered in implementing ESG practices. This proactive engagement will ensure ESG considerations remain at the forefront of the banking and financial sector's agenda, facilitating the establishment of a sustainable and responsible financial ecosystem in Cambodia.
- MoE shall integrate ESG principles into the banking and financial sectors. This can be achieved through dialogues and fundraising campaigns. The MoE should engage with organizations like development agencies, philanthropic foundations, and corporate entities to explore financial collaboration opportunities. Additionally, the MoE should organize fundraising campaigns to attract financial resources for ESG integration. These campaigns should raise awareness about the importance of ESG practices in the banking and financial sectors and highlight potential benefits for stakeholders and the community. Engaging in dialogues and fundraising campaigns will allow the MoE to

tap into external funding sources, expanding resources for implementing ESG initiatives. This collaboration will contribute to a sustainable and responsible financial ecosystem, driving positive environmental and social outcomes and promoting long-term economic stability in Cambodia.

- ABC shall be considering the establishment of an ESG Foundation to generate funds for capacity building and raising awareness about ESG practices. The foundation can be funded through membership fees or donations from participating banks or stakeholders. The funds can be strategically allocated to support ESG integration within the banking sector, including capacity building through training programs and educational materials. Additionally, the funds can be used for awareness-raising campaigns to disseminate information about ESG practices among ABC members, the wider banking community, and the general public. This proactive approach to sustainable finance and responsible banking practices will contribute to the development of a knowledgeable and engaged banking sector in Cambodia.
- NBC and ABC, in collaboration with MoE when and where necessary, shall consistently monitor the ESG performance of their member institutions. This will help identify areas for improvement and provide targeted guidance. The NBC and ABC should establish a regular monitoring mechanism to assess the ESG performance of their member banks, involving periodic assessments, data collection, and analysis of key ESG indicators. Documenting positive ESG practices and highlighting them can serve as a repository for learning opportunities and recognition. Sharing these practices can take various forms, such as organizing knowledge-sharing events, publishing reports, or creating an online platform for information exchange. This proactive approach will contribute to the advancement of sustainable and responsible banking practices in Cambodia, leading to positive environmental and social impacts and long-term economic stability.
- NBC and ABC shall be urging BFIs to register with the Cambodia Securities Exchange (CSX) to facilitate capital mobilization and enhance credit ratings. This will create opportunities for BFIs to diversify their funding sources and attract investments aligned with sustainable and green initiatives. CSX listing requirements and regulatory oversight can improve BFIs' credit ratings, potentially leading to lower borrowing costs and increased investor confidence. To encourage BFIs to issue green bonds, NBC and ABC can offer assisted registration or special exemptions that streamline the registration process, provide technical assistance, or offer regulatory incentives. This approach aligns with global trends in responsible investment and supports the development of a thriving green bond market in Cambodia, driving positive environmental and social impacts.

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## ANNEX

### Reviewed ESG/CSR practices of BFIs in Cambodia

No.	Banks	ESG/CSR	Strategy	Source
1	ACLEDA Bank	ESS	Internalized and Outreach oriented	2021 Annual Report <sup>12</sup>
2	ABA	CSR	Outreach oriented	2021 Annual Report <sup>13</sup>
3	ARDB	CSR	Outreach oriented	2021 Annual Report <sup>14</sup>
4	Bank of China	None	-	2019 Annual Report <sup>15</sup>
5	BIC (Cambodia) Bank Plc.	None	-	2021 Annual Report <sup>16</sup>
6	Booyung Khmer Bank	CSR	Outreach oriented	2021 Annual Report <sup>17</sup>
7	Bank for Investment and Development of Cambodia Plc.	CSR	Outreach oriented	2021 Annual Report <sup>18</sup> (CSR not termed, but social activities are highlighted)
8	Cambodia Post Bank Plc.	CSR	Outreach oriented	2021 Annual Report <sup>19</sup>
9	Cathay United Bank	None	-	2021 Annual Report <sup>20</sup>
10	Chief (Cambodia) Commercial Bank Plc.	None	-	2021 Annual Report <sup>21</sup> (only termed but no reported activities)
11	Chip Mong Bank	CSR/CSFPs	Internalized and Outreach oriented	2021 Annual Report <sup>22</sup>
12	CIMB Bank	ESG/CSR	Outreach oriented	2021 Annual Report (1-hr training on ESG) <sup>23</sup>
13	DGB Bank	CSR	Outreach oriented	2021 Annual Report <sup>24</sup>
14	Hatta Bank	CSR	Internalized and Outreach oriented	2021 Annual Report <sup>25</sup> (environmental performance indicators)

<sup>12</sup> [https://www.acledabank.com.kh/kh/assets/pdf\\_zip/ACLEDA%20Bank%20-%20Annual%20Report%202021%20-%20High.pdf](https://www.acledabank.com.kh/kh/assets/pdf_zip/ACLEDA%20Bank%20-%20Annual%20Report%202021%20-%20High.pdf)

<sup>13</sup> [https://www.ababank.com/fileadmin/user\\_upload/Annual Reports/ABA Bank Annual Report EN 2021 v2.pdf](https://www.ababank.com/fileadmin/user_upload/Annual Reports/ABA Bank Annual Report EN 2021 v2.pdf)

<sup>14</sup> [https://www.ardb.com.kh/wp-content/uploads/2022/07/annual-report-2021\\_Eng.pdf](https://www.ardb.com.kh/wp-content/uploads/2022/07/annual-report-2021_Eng.pdf)

<sup>15</sup> <https://www.bankofchina.com.kh/dam/en-kh/top/about-us/financial-report/annual-report/2019/annual-report-2019.pdf>

<sup>16</sup> <https://www.bicbank.com.kh/wp-content/uploads/2022/06/BIC BANK ANNUAL REPORT 2021 EN FA-1.pdf>

<sup>17</sup> <http://www.bkb.com.kh/Annual%20Report/2021/Annual%20Report%202021%20English.pdf>

<sup>18</sup> <https://www.bidc.com.kh/en/annual-report/annual-report-bidc-2021>

<sup>19</sup> <https://www.cambodiapostbank.com.kh/wp-content/uploads/2022/06/Annual-Report-2021EN.pdf>

<sup>20</sup> [https://www.cathaybk.com.kh/file/annual-report/AnnualReport2021\\_EN.pdf](https://www.cathaybk.com.kh/file/annual-report/AnnualReport2021_EN.pdf)

<sup>21</sup> <https://www.chiefbank.com.kh/Content/media/report/AnnualReport2021/English/Annual Report 2021.pdf>

<sup>22</sup> [https://www.chipmongbank.com/en/files/annual\\_report\\_2021\\_en.pdf](https://www.chipmongbank.com/en/files/annual_report_2021_en.pdf)

<sup>23</sup> <https://www.cimbbank.com.kh/content/dam/cimbbank/personal/annual-reports/2021/ANNUAL REPORT 2021 EN Final .pdf>

<sup>24</sup> <https://www.dgbcambodia.com/wp-content/uploads/2022/06/Annual-Report-2021-English-Final.pdf>

<sup>25</sup> <https://www.hatthabank.com/uploads/files/22062022150010-Annual%20Report%2020>

15	HongLeong Bank	CSR	Internalized and Outreach oriented	2021 Annual Report <sup>26</sup>
16	Industrial and Commercial Bank of China Limited Phnom Penh Branch (ICBC)	Environment, Social and Community	Not known	2020 Annual Report <sup>27</sup> (just one sentence, see the footnote)
17	J Trust Royal Bank	CSR	Outreach oriented	2021 Annual Report <sup>28</sup>
18	MayBank Cambodia	ESG/CSR/Sustainability	Internalized and Outreach oriented	2021 Annual Report <sup>29</sup>
19	Philip Bank	CSR	Outreach oriented	2021 Annual Report <sup>30</sup>
20	Phnom Penh Commercial Bank	ESG/CSR	Internalized and Outreach oriented	2021 Annual Report <sup>31</sup> (ESG Rating – A+ (2020-2021))
21	Prince Bank	CSR/CSFPs	Internalized and Outreach oriented	2021 Annual Report <sup>32</sup> (sustainable finance policy framework developed <sup>33</sup> )
22	RHB Bank (Cambodia) Plc.	ESG	Internalized and Outreach oriented	2021 Annual Report <sup>34</sup> (Bank Sustainability Framework <sup>35</sup> )
23	Sacombank (Cambodia) Plc.	None	-	2021 Annual Report <sup>36</sup> (mentioned in core value as Social Responsibility – Growing Together)
24	Sathapana Bank Plc.	CSR/CSFP	Only Outreach oriented (no internalization)	2021 Annual Report <sup>37</sup> (Environmental and Social Sustainability Management <sup>38</sup> )
25	SBI Lyhour Bank	None	-	2021 Annual Report <sup>39</sup>

<sup>26</sup> <https://www.hlb.com.kh/content/dam/hlb/kh/docs/pdf/about-us/investor-relations/2021/annual-reports/Annual%20Report%202021-EN.pdf>

<sup>27</sup> <http://v.icbc.com.cn/userfiles/Resources/ICBC/haiwai/PhnomPenh/Download/AnnualReport2020ENGPart1.pdf> (By upholding the core of ICBC enterprise culture, the Branch proactively performs its social enterprise responsibilities, and promotes the fusion of enterprise culture and operation management.)

<sup>28</sup> [https://jtrustroyal.com/media/2134/jtrb\\_annual-report-2021\\_eng\\_final.pdf](https://jtrustroyal.com/media/2134/jtrb_annual-report-2021_eng_final.pdf)

<sup>29</sup> [https://www.maybank2u.com.kh/iwov-resources/kh/pdf/annual\\_report/AR-2021-ENG.pdf](https://www.maybank2u.com.kh/iwov-resources/kh/pdf/annual_report/AR-2021-ENG.pdf)

<sup>30</sup> [https://www.phillipbank.com.kh/pdf/annual\\_reports/en/Annual%20Report%202021.pdf](https://www.phillipbank.com.kh/pdf/annual_reports/en/Annual%20Report%202021.pdf)

<sup>31</sup> [https://www.ppcbank.com.kh/wp-content/uploads/2022/09/2021\\_JB-Financial-Group\\_Integrated-Report\\_ENG.pdf](https://www.ppcbank.com.kh/wp-content/uploads/2022/09/2021_JB-Financial-Group_Integrated-Report_ENG.pdf)

<sup>32</sup> [https://www.princebank.com.kh/images/financial-report/pdf/EN-Prince-Bank-Annual-Report-2021\[Minimized\]-final.pdf](https://www.princebank.com.kh/images/financial-report/pdf/EN-Prince-Bank-Annual-Report-2021[Minimized]-final.pdf)

<sup>33</sup> This includes general policy, four core policy, two theme policies, and nine sensitive sector policies. Each policy outlines the key environmental and social issues, our solution commitments, and what we expect our clients and business partners to do.

<sup>34</sup> [https://www.rhbgroup.com.kh/website-assets/assets/files/annual-report/rhbcbp\\_annual\\_report\\_2021.pdf](https://www.rhbgroup.com.kh/website-assets/assets/files/annual-report/rhbcbp_annual_report_2021.pdf)

<sup>35</sup> The Framework consists 3 thematic sustainability pillars, i.e. Sustainable and Responsible Banking, Embedding Good Practices and Enriching and Empowering Communities. Within each pillar, RHB has identified key focus areas that are important to the business and operations as well as to its stakeholders.

<sup>36</sup> [https://www.sacombank.com.kh/wp-content/uploads/2022/09/Annual\\_Report\\_2021\\_en.pdf](https://www.sacombank.com.kh/wp-content/uploads/2022/09/Annual_Report_2021_en.pdf)

<sup>37</sup>

[https://www.sathapana.com.kh/minio/user\\_upload/Annual\\_Reports/pdf/Sathapana\\_Bank\\_Annual\\_Report\\_2021\\_English.pdf](https://www.sathapana.com.kh/minio/user_upload/Annual_Reports/pdf/Sathapana_Bank_Annual_Report_2021_English.pdf)

<sup>38</sup> There is a policy on environmental and social sustainability which sets out performance standards and exclusion list. This provides a more structured guidance to identify and assess potential ES risks as part of the credit evaluation process.

<sup>39</sup> [https://www.sbilhbank.com.kh/wp-content/uploads/2022/07/Annual-Report\\_2021\\_English\\_New.pdf](https://www.sbilhbank.com.kh/wp-content/uploads/2022/07/Annual-Report_2021_English_New.pdf)

26	Shinhan Bank (Cambodia) Plc.	CSR	Outreach oriented	2021 Annual Report <sup>40</sup>
27	Union Commercial Bank Plc.	ESG/CSR	More Outreach oriented	2021 Annual Report <sup>41</sup>
28	Vattanac Bank	CSR	Outreach oriented	2021 Annual Report <sup>42</sup> (just mentioned but no specific activities presented)
29	Foreign Trade Bank	ESG/ESMS	Internalized and Outreach oriented	2021 Annual Report <sup>43</sup>

Note: Outreach oriented is meant that the banks approach and work more with outside communities rather than internalize ESG/CSR policies and perform themselves internally.

<sup>40</sup> [https://www.shinhan.com.kh/uploads/financial/annual-report-2021\\_en.pdf](https://www.shinhan.com.kh/uploads/financial/annual-report-2021_en.pdf)

<sup>41</sup> [https://www.esunbank.com.tw/bank/-/media/esunbank/files/corporate/ucb\\_en/annual\\_report/2021\\_annual\\_eng.pdf?la=en](https://www.esunbank.com.tw/bank/-/media/esunbank/files/corporate/ucb_en/annual_report/2021_annual_eng.pdf?la=en)

<sup>42</sup> [https://doc-10-7o-docs.googleusercontent.com/docs/securesc/p9jicg920v0l2qek4c0kqtrtkppnaod9/is5c5m7ef4h26k7dhh7duaut43bgg1f4/1665647775000/18332207523250546519/07092318846620023555Z/1Xa45o55fh24bwbo9q\\_kpKVZ4gDeULJmk?e=download&uuid=999472d1-6c48-4ab5-ae8a-e718141527fe&nonce=ev7hIneg3eldm&user=07092318846620023555Z&hash=up0sb44cm3u2o9g0evhqva3qq3bqi165](https://doc-10-7o-docs.googleusercontent.com/docs/securesc/p9jicg920v0l2qek4c0kqtrtkppnaod9/is5c5m7ef4h26k7dhh7duaut43bgg1f4/1665647775000/18332207523250546519/07092318846620023555Z/1Xa45o55fh24bwbo9q_kpKVZ4gDeULJmk?e=download&uuid=999472d1-6c48-4ab5-ae8a-e718141527fe&nonce=ev7hIneg3eldm&user=07092318846620023555Z&hash=up0sb44cm3u2o9g0evhqva3qq3bqi165)

<sup>43</sup> <https://ftbbank.com/en/about-ftb/>



## Interview Questions

<b>Qualitative Questions for Banks</b>
1. Have you been aware of the Study Report on Banks' Compliance with Environmental and Social Impact Assessment in Cambodia? (Yes/No) If no, why?
If yes, did you take up any of the recommendations? (Yes/No), If no, why?
If yes, what did you do?
2. What kind of policies or framework shall the Royal Government of Cambodia have in place to promote ESG/ESIA in the finance and banking sector in Cambodia?
3. What do you know about the government's vision and expectations on ESG/ESIA from the finance and banking sector in Cambodia?
4. What do you think the finance and banking sectors should do to transform themselves into socially and environmentally responsible institutions in Cambodia?
5. For incentive and encouragement, how do you think the government should promote more ESG/ESIA in the finance and banking sector in Cambodia?
6. What does the government impose for any guidelines or policies related to loans for large investments?
7. What are the related policies or guidelines of your bank on the ESG/ESIA for your banking operation?

### List of Interviewees

No.	Institutions	Methods
1	Ministry of Economy and Finance	Face-to-face interview
2	National Bank of Cambodia	Face-to-face interview
3	Association of Banks in Cambodia	Face-to-face interview
4	Bank of China	Face-to-face interview
5	Civil society groups, including Action Aid Cambodia, Transparency International Cambodia, Cooperation Committee for Cambodia, Oxfam in Cambodia	Face-to-face interview

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