ISSUE: 2023, No. 05

AVI COMMENTARY

Cambodia | 17 February 2023

Advancing Sustainable Finance in Cambodia

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To build a sustainable, inclusive, and ecologically friendly economy and society, world leaders initiated the United Nations 2030 Agenda for Sustainable Development Goals (SDGs), consisting of 17 goals. The 17 goals aim to provide a broad framework for achieving social, environmental, and economic prosperity for all.

Realising the essential role of the private sector in achieving SDGs, the leaders also initiated the Environmental, Social, and Governance (ESG) model to promote the private sector participation in ecologically friendly, socially inclusive, and good governance business. It ensures that sustainable practices are adopted for the whole value chain and that no environmental impacts and human rights violations occur in the business process. In return, adopting the ESG approach can help companies attract more support from socially conscious investors and consumers since mounting pieces of evidence show that screening investments based on ESG criteria sustains long-term business operations and significantly contributes to the achievement of SDGs.

To achieve ESG, financial institutions have a critical role in encouraging the private sector to adopt sustainable finance practices in their business operation through loan assessment and approval. The UN estimates that USD 5-7 trillion is needed yearly to achieve the SDGs. In 2020, the European Union (EU) mobilised one trillion euros for sustainable investment to facilitate and stimulate public and private investments needed to transition to a climate-neutral, green, competitive, and inclusive economy. The EU needs to invest an additional amount of approximately 350 billion EUR annually. This huge financial demand and deficit for SDGs certainly require much more participation from the private sector.

Nevertheless, mounting challenges remain for small and medium enterprises (SMEs), even for large corporations, and the economy to move towards sustainability. Even though most companies tend to agree with the ESG model, the environment industry requires high expenses, unaffordable for most companies. Besides, financial institutions are not well equipped with the resources to introduce the ESG model.

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Cambodia's Efforts to Implement Sustainable Finance

2018 marked the adoption of Cambodia's Sustainable Development Goals (CSDGs). Two of the five pillars focus on people and the planet, in which ESG promotion for sustainable economic growth and development is also included. In addition, the Royal Government of Cambodia has supported the Association of Banks in Cambodia (ABC) in introducing sustainable financing practices, which most ABC members adopted and agreed to integrate into their business operations.

As a developing country, Cambodia has been putting substantial efforts into combating climate change and achieving climate resilience by being the first ASEAN country to commit to obtaining carbon neutrality by 2050. To achieve this goal, sustainable finance is essential, as it is the critical building block of climate response for green growth and biodiversity architecture.

In addition, it potentially contributes to a 2.8 per cent GDP growth and the creation of half a million jobs for the kingdom. After adopting sustainable finance principles and guidelines, the public and private sectors, especially financial institutions, have been making various efforts, including digital adoption and paperless operations. For instance, in this digital area, banks encourage self-services from the customers and staff, including mobile and internet banking, which minimises the use of printed forms and paper, thus reducing carbon usage utilities.

Green financing policies are also being introduced in Cambodia, including the Code of Banking Practice (CBP), which highlights the information and data examination of credit payment ability by including the social and environmental impacts. Besides, the Cambodia Sustainable Finance Principles (CSFP) promote information and knowledge sharing while integrating banking sustainability.

Furthermore, the government incentivises the private sector, committing to project implementation using sustainable finance, by having new investment laws, which provide tax exemption for banks evaluated and accessed by the National Bank of Cambodia for applying green finance. With these practices, key achievements are assessed by the Environmental and Social Management System (ESMS), which is customised for banks to align with, including procedures and tools, governance structure, reporting, and capacity building to assist the implementation.

Challenges and Recommendations

Despite the efforts to adopt sustainable finance, Cambodia encounters significant challenges as raised by the experts from the Ministry of Environment, Oxfam, and Chip Mong Commercial Bank, who participated in the AVI-SDGs Dialogue in June 2022. According to the experts, Cambodian financial institutions face several risks, including credit risks, in which borrowers cannot pay their loans, market risks in loss of loan and underwriting services, and operational risks in damage to buildings and facilities.

Moreover, adopting sustainable finance requires a high cost of funds and main expenses on sustainable materials, which would result in a frequent inability to lend to sustainable finance at an adequate rate. Cambodian institutions have also experienced constraints in seeking access to green funds, thus slowing the progress of implementation. These challenges are intensifying due to the current global issues such as COVID-19 and the Russia-Ukraine conflict, shrinking economic opportunities, while firms need to recover their profits by reducing the compliance of sustainable finance.

To assist Cambodia in achieving sustainable finance, the experts suggested the following recommendations. The government should consider introducing a mandatory approach and legally binding measures to avoid free riders and improve the level playing fields. Moreover, a robust supervisory practice to indicate and identify ESG risks and impacts is crucial to ensure sufficient resource allocation. Furthermore, regulators should encourage a more diverse banking sector to permit the financing of sustainable innovations and inclusive financing. The government should also increase the funding and incentives for sustainable finance activities and projects to accelerate the implementation process. Finally, the experts encourage more financial institutions to adopt sustainable finance to receive an excellent international-level green climate funding opportunity and promote participation from all relevant stakeholders to spur the progress of sustainable finance.