

A Sustainable Banking Network (SBN)
Task Force Report

Addendum to the SBN Report
Necessary Ambition: How Low-Income
Countries Are Adopting Sustainable Finance
to Address Poverty, Climate Change, and
Other Urgent Challenges

(Internal Review Only)

June 2020

Country Profile

Cambodia

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Cambodia



SBN Member: Association of Banks in Cambodia (ABC) (member since 2016)

SBN Working Group: IDA* Task Force

Key policy documents:

- Cambodian Sustainable Finance Principles (ABC, 2018)
- Cambodian Sustainable Finance Principles Implementation Guidelines (ABC, 2019)

SBN Progression Matrix Stage (2019): Developing – the country has formally launched a national sustainable finance roadmap, framework, policy, or voluntary industry principles, and a formal task force, working group, or institution has been tasked with implementation.

SBN and IFC role: IFC, through the Asia region Environmental and Social Risk Management (ESRM) Program for financial institutions, has provided advisory services to ABC in relation to principles and tools development, implementation, and capacity building, in partnership with the government of Japan. Through SBN, ABC has shared its experience with other SBN members and benefited from the collective SBN knowledge base.

About this Country Profile:

* IDA stands for the International Development Association (ida.worldbank.org), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

This Country Profile is an addendum to the SBN report: *Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges*. The report and country profiles for the first time capture in a systematic way how sustainable finance is being harnessed by low-income countries to address a range of common environmental and social priorities and drive financial sector innovation despite market constraints.

The report and profiles complement and build on the data collection and analysis for the SBN 2019 Global Progress Report, which covered 39 emerging markets. They delve deeper into the experiences of 8 low-income countries in the SBN network through an online survey, interviews, and desk research.

This country profile has four sections:

- The **Drivers of Action** – factors that spurred the country to develop sustainable finance policies or voluntary principles.
- The country's **Experiences in Developing Sustainable Finance Frameworks** and what was learned in the process.
- **Future Priorities** for the country as it continues to develop its sustainable finance systems.
- How the country views linkages between sustainable finance policies and **Broader Development of its Financial System**.

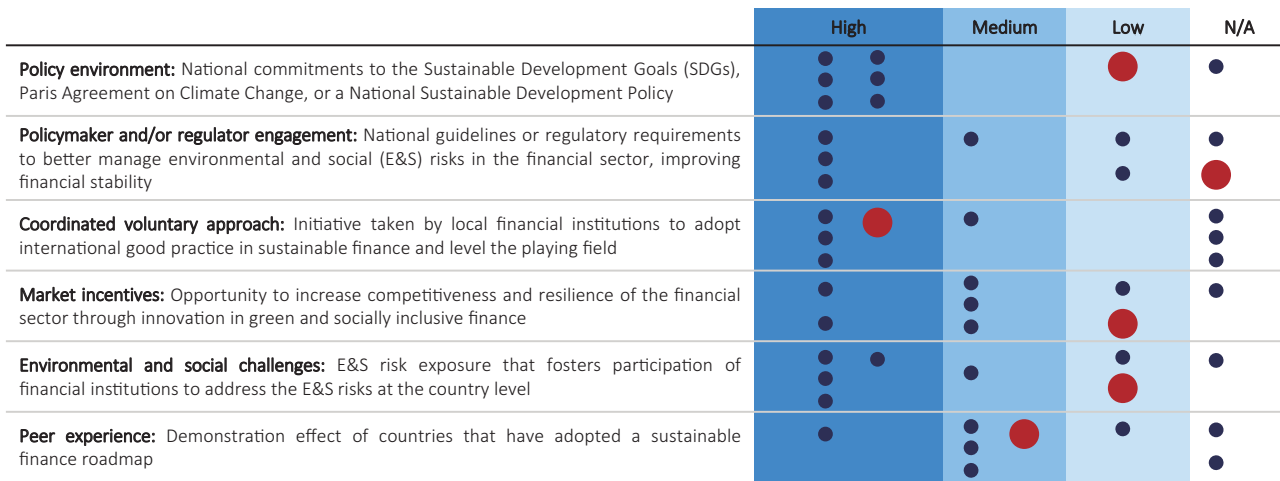
1 Drivers of action

What factors spurred Cambodia to develop sustainable finance voluntary principles?

The ABC has been the primary champion of sustainable finance in Cambodia. Figure 1 compares the drivers of sustainable finance in Cambodia with those in other SBN IDA countries. Compared with countries with established sustainable finance systems, fewer factors are considered highly important drivers

in Cambodia, suggesting less broad-based impetus for progress. In common with countries with banking association SBN members, the coordinated voluntary approach is emphasized above policymaker or regulator engagement. Peer experience has also been an important driver and has been critical to drafting the sustainable finance principles (discussed below). Unlike peer countries, neither national development commitments nor environmental and social challenges have driven sustainable finance in Cambodia.

Figure 1 Having a coordinated voluntary approach has been the key driver for sustainable finance in Cambodia



Notes: Large dots represent Cambodia’s responses; small dots represent those of other countries.
 Source: SBN IDA Diagnostic Survey responses

“*Development of the principles got momentum since Sustainable Finance (SF) Committee’s Working Group kicked off with support of IFC and Mongolian Bankers Association (MBA) in May 2018. IFC and MBA’s support was indispensable in organizing workshops and drafting the policy. Establishing SF Committee and getting bank CEOs and regulators’ attention and involvement was a key to obtain endorsement for introducing the sustainable finance principles.*”

- Association of Banks in Cambodia

2. Developing a sustainable finance framework

What process did Cambodia go through to develop a framework to promote sustainable finance, and what have they learned on the way?

The process of developing sustainable finance principles in Cambodia, summarized in Figure 2, has relied on close collaboration between regulators and bank CEOs, as well as technical support from IFC and the Mongolian Bankers Association (MBA). Banks in Cambodia only adopted the Cambodian Sustainable Finance Principles in January 2019. Implementation is therefore in the early stages.

Figure 2 Stages and steps for developing and implementing the sustainable finance framework in Cambodia



Source: SBN IDA Diagnostic Survey responses

All three key stakeholder groups in Cambodia initially experienced challenges in developing and implementing the sustainable finance principles:

- *Banks* insufficiently prioritized sustainable finance, considering it to be counter to their business interests, and lacked the capacity to implement sustainable finance.
- *The ABC* had insufficient resources, knowledge, and expertise to lead sustainable finance development.
- *The regulator* was insufficiently engaged, resulting in limited enforcement of sustainable finance.

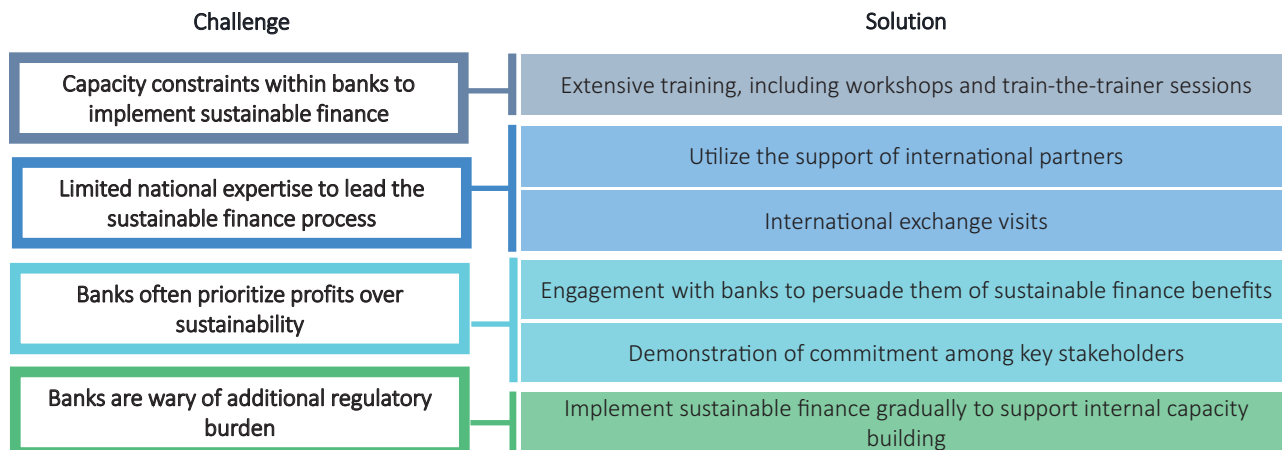
To overcome these challenges, the ABC drew heavily on the support of international partners—notably IFC and the Mongolia Banking Association—in

drafting the principles and engaging stakeholders.

To encourage the prioritization of sustainable finance, the ABC and the National Bank of Cambodia have demonstrated strong commitment and have also supported banks through capacity-building activities.

Although the sustainable finance principles have only recently been adopted, there is evidence that banks have already improved their management of E&S risks. The following are some of the practices among banks in Cambodia: compiling an exclusion list to avoid lending to businesses that present E&S risks; developing E&S risk management policies; creating incentive schemes to encourage awareness of E&S risk; raising public awareness of E&S issues; and designing bank branches with environmental considerations and social inclusion factors in mind.

Figure 3 The solutions Cambodia found to address challenges in sustainable finance implementation



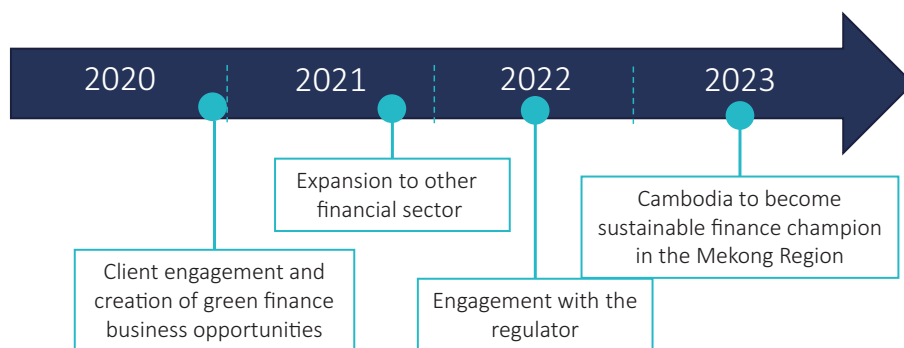
Source: SBN IDA Diagnostic Survey responses

3. Future priorities

What are Cambodia’s priorities as it continues to develop a sustainable financial system?

The ABC’s Sustainable Finance Committee continues to conduct stakeholder engagement and develop implementation tools, with the goal of becoming the sustainable finance champion in the Mekong Region by 2023. Figure 4 summarizes Cambodia’s next steps in sustainable finance implementation.

Figure 4 Cambodia’s next steps in the development of a sustainable finance framework



Source: SBN IDA Diagnostic Survey responses

Figure 5 compares Cambodia’s ongoing challenges in developing a sustainable finance system with those faced in other SBN IDA countries. As with peer countries, there is significant focus on a supportive

enabling environment, capacity building, and the development of specific tools to support sustainable finance implementation. In addition, the ABC highlighted limited regulation and enforcement as an ongoing challenge.

Figure 5 Ongoing challenges to be met in developing and implementing sustainable finance for Cambodia

		High	Medium	Low	N/A
Enabling environment and capacity building	Build the capacity of regulators and financial institutions	● ● ● ● ● ● ● ● ● ●			
	Enhance cooperation among financial institutions	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●		
	Provide clear incentives for sustainable finance	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●		
	Develop and launch a sustainable finance roadmap	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●		●
	Expand sustainable finance to other financial sectors	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●		
	Promote publicly available environmental data	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●		
	Create green asset guidelines, incentives, and awareness	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ● ● ● ●	

Note: Large dots represent Cambodia’s responses; small dots represent those of other countries.
Source: SBN IDA Diagnostic Survey responses

4. Broader financial sector development

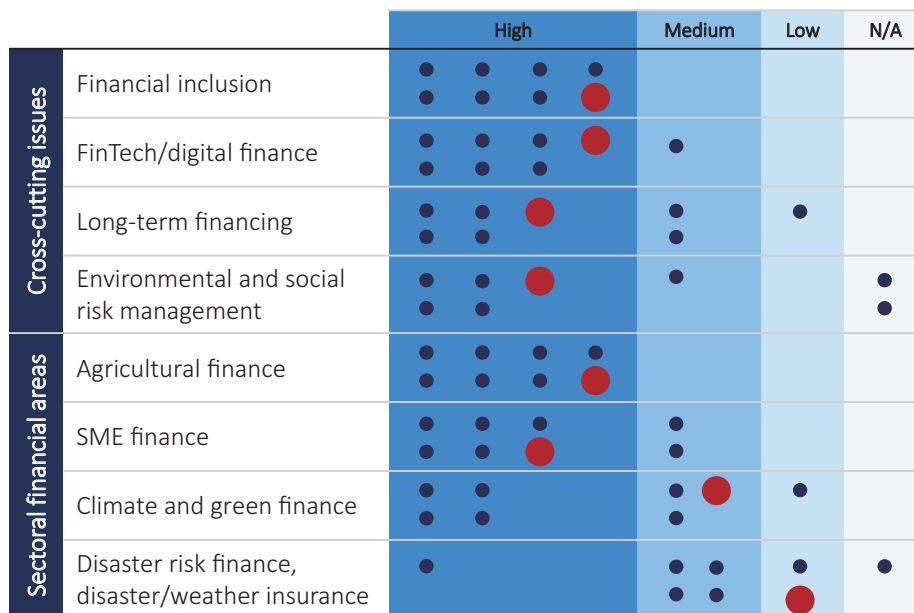
How does sustainable finance in Cambodia connect with broader ambitions?

Stakeholders in Cambodia are concerned about broad financial sector development, both with regard to cross-cutting and sector-specific issues.

Figure 6 compares Cambodia’s concerns related to

financial sector development with other IDA SBN countries. These concerns are wide-ranging, and this is reflected in Cambodia’s sustainable finance agenda, which incorporates financial inclusion and SME finance to enable poverty reduction and employment creation. Sustainable finance is seen as strengthening and advancing financial inclusion efforts such as financial access, financial literacy, consumer protection, and community adaptation finance.

Figure 6 Key areas of concern related to financial sector development for Cambodia



Note: Large dots represent Cambodia’s responses; small dots represent those of other countries.
 Source: SBN IDA Diagnostic Survey responses

“ *In addition to the narrowly defined green finance - such as financing renewable energy projects - sustainable finance could contribute to poverty reduction by covering financing for the poor and MSMEs to have the means to get income, as well as financing projects and business that can create jobs for the poor.* ”

- Association of Banks in Cambodia

Access SBN knowledge resources at:
www.ifc.org/sbn

Access the SBN Necessary Assessment Report
and associated Country Profiles at:
www.ifc.org/sbnnecessaryambition



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