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Cambodian Sustainable Finance Principles Implementation Guidelines

The purpose of these Implementation Guidelines is to serve as a basis for the Cambodian banks and microfinance institutions (MFIs) in developing their own sustainable finance approaches, in line with the Cambodian Sustainable Finance Principles.

Revised February 1, 2019

I. Protecting the Environment, our People and our Cultural Heritage

We believe there is a role for the private sector when it comes to safeguarding the future of Cambodia. When making business decisions, we commit to prioritise the environment, protect our people and preserve our cultural heritage by actively assessing, managing, mitigating, offsetting or avoiding potential risks or negative impacts arising from our clients' business activities, standards or practices. With these principles, our aim is to create a level playing field and raise standards across the sector.

Principle 1. We will assess and manage environmental risks relating to climate change, pollution and waste management and the protection of our critical natural resources.

1.1. Overview and rationale of the Principle

In implementing this Principle, a bank/MFI will incorporate into its decision-making processes an approach that systematically identifies, assesses and manages the **environmental** risks and potential impacts associated with its clients and transactions, and will determine whether relevant environmental standards have been adequately applied. Where avoidance of environmental impacts is not possible, a bank/MFI should seek to engage with its clients to minimise the identified risks and impacts.

A bank/MFI will consider whether as a result of its Business Activities there are potential negative impacts to the environment, particularly relating to:

- climate change;
- pollution (including soil, water and air);
- waste management; and
- the protection of Cambodia's critical natural resources (water, natural forests & habitats, biodiversity).

The above-listed environmental issues have been identified as currently the most pressing in the Cambodian context, in relation to which banks/MFIs could have a positive influence.

1.2. Relevant national and international standards

- Royal Government of Cambodia, Cambodia Climate Change Strategic Plan 2014-2023 (Link)
- Royal Government of Cambodia, Ministry of Environment, Climate Change Action Plan 2016 – 2018 (Link)
- The Convention on Biological Diversity, ratified by Cambodia in 1995 (Link)
- Biodiversity Country Profile Cambodia (Link)
- Cambodia National Biodiversity Strategy and Action Plan (February 2016) (Link)
- Cambodia National REDD+ Strategy 2017-2026 (Reducing Emissions from Deforestation and Forest Degradation in developing countries) (Link)
- Cambodian Ministry of Environment (Link)
- National regulations requiring Environmental Impact Assessment for certain projects (*e.g. Draft law on Environmental Impact Assessment, Draft Environment and Natural Resources Code of Cambodia*) (Link)
- Country Environment Profile, Royal Kingdom of Cambodia (produced with support from the European Union Delegation to Cambodia, April 2012) (Link)
- CITES - the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Link)
- Environmental Performance Index (Link)
- UN Sustainable Development Goals (Link)
- IFC Performance Standards (PSs) (Link): PS1 (Assessment and Management of Environmental and Social Risks and Impacts), PS3 (Resource Efficiency and Pollution Prevention), PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources)
- World Bank Environmental, Health, and Safety Guidelines (Link)
- Equator Principles (Link)
- ISO 14000 family of standards on Environmental Management (provide practical tools for companies looking to identify and manage their environmental impact and improve their environmental performance) (Link)
- ISO 31000 guidelines on risk management (Link)
- The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) (Link)
- Recommendations of the Task Force on Climate-related Financial Disclosures (Link)

1.3. Implementation guidelines

Banks/MFIs assess and manage environmental (and social) risk and issues through an **Environmental and Social Management System (ESMS),** customised according to their specific business activities, operations, client base, the types of products and services they provide.

Environmental and Social (E&S) risks and issues/impacts include, without being limited to, the following:

a. climate change;
b. pollution (including soil, water and air);
c. waste management;
d. impacts on Cambodia's critical natural resources (water, natural forests & habitats, biodiversity) (*Principle 1);*
e. impacts on people, in particular local communities, workers, and indigenous/minority populations (*Principle 2*); and

f. impacts on Cambodian cultural heritage, including language, culture, traditions and monuments (*Principle 3*).

The key elements of a bank/MFI's ESMS include:

- **E&S Policies**: a **general E&S Policy** (or Sustainable Finance Policy, or Sustainability policy), which covers both the bank/MFI's Business Activities and Business Operations and can also include a **Prohibited/Excluded Activities List**; and **specific E&S policies**, related to certain industry sectors, themes (e.g. climate change) or financial products. Banks/MFIs should seek to align their E&S policies with the relevant Cambodian national strategies and commitments, e.g. a bank/MFI's climate change policy should seek to align investments with the Cambodian's Climate Change Strategic Plan / Climate Change Action Plan;

- **E&S Procedures and Tools**, which provide detailed guidance on how to consistently implement the E&S policies and integrate E&S risk due diligence into the loan/investment decision-making processes, including monitoring the E&S aspects of the loan/investment portfolio;

- **E&S governance structure**, tailored according to the size and complexity of the bank/MFI, as well as to the bank/MFI's E&S risk profile;

- **E&S reporting (internal and external)**, which may include reporting on E&S performance of Business Activities and Business Operations (including climate reporting), on the implementation of relevant standards, and on fulfilling other E&S objectives/commitments as stated in the bank/MFI's E&S policies; and

- **E&S capacity building** on a regular basis, to support the effective implementation of the overall E&S policy and procedures framework and ensure compliance with the Cambodian Sustainable Finance Principles.

Further details on the key elements of an ESMS are provided in **Annex 1**.

1.4. Good practice references and additional resources

- Standard Chartered Bank position statements outlining their approach in 20 sensitive business sectors (e.g. Agribusiness, Fisheries, Palm Oil, Biofuels) (Link)
- ANZ Bank sustainability policies on protecting the environment, including Forestry and Water policies (Link)
- HSBC Statement on Climate Change (Link)
- UNEPFI Navigating a new climate - Assessing credit risk and opportunity in a changing climate: Outputs of a working group of 16 banks piloting the TCFD Recommendations – Part 1: Transition-related risks and opportunities[1] (Link)
- UNEPFI Navigating a new climate - Assessing credit risk and opportunity in a changing climate: Outputs of a working group of 16 banks piloting the TCFD Recommendations – Part 2 Physical risks and opportunities[2] (Link)
- The 2° Investing Initiative, a global think tank for developing climate and long-term risk metrics and related policy options in financial markets (Link)
- EBRD Performance Requirements and Guidance (Link)
- European Development Finance Institutions (EDFI) Principles for Responsible Financing (Link)
- Harmonized EDFI Exclusion List (Link)
- High Conservation Values (HCV) (Link)
- Biodiversity for Banks Programme is an online set or resources and reference materials designed specifically to help banks integrate Biodiversity issues into their business activities (Link)
- The Natural Capital Declaration (Link) is a global commitment for financial institutions for the integration of natural capital considerations into financial sector reporting, accounting, and decision-making by 2020
- The Economics of Ecosystems and Biodiversity is a global initiative focused on quantifying the economic benefits of biodiversity (Link)
- Water.org, WaterCredit solutions for Cambodia (Clean Water Projects) (Link)
- World Bank Water Partnership Programme (Link) demonstrates the benefits of good water management in the projects that it finances
- World Wide Fund for Nature (WWF) (Link)
- Conservation International (Link)
- Flora & Fauna International (Link)

[1] This pilot project by UNEPFI with 16 banks is implementing the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The project is developing scenarios, models and metrics to enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities. The first guidance from the pilot project focuses on developing a methodology for assessing the risks and opportunities associated with the transition to a low-carbon economy.

[2] The second guidance from the pilot helps banks assess the risks and opportunities arising from the physical risk of climate change, which is the risk resulting from climate variability, extreme events and longer-term shifts in climate patterns.

- Climate Risk and Financial Institutions - Challenges and Opportunities (IFC, 2010) (Link)
- The Sustainable Development Goals Explained for Business (Link)

1.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to develop and implement an environmental risk management system. This could include, but is not limited to, the following:

- Development of environmental risk reporting framework and criteria (relevant key performance indicators (KPIs) to monitor and report on progress against the bank/MFI's environmental commitments);
- Ensuring that the necessary systems are in place to collect the relevant data;
- Developing E&S policies (general E&S Policy and specific E&S policies, as applicable), approved by top management, that adequately address environmental issues;
- Developing E&S Procedures that reflect environmental considerations, with clearly articulated roles & responsibilities, and include them (or summaries thereof) in the external reporting;
- Establishing E&S governance structures, aligned with the existing operating model for the management of other risk categories – particularly credit risk, transaction approval and new client acceptance;
- Implementing the E&S policies and procedures into the bank/MFI's Business Activities and Business Operations, in particular including environmental considerations and criteria in due diligence and business decision-making processes for potential clients and transactions. This includes, among others, screening clients and transactions for E&S issues, performing E&S risk categorisation, carrying out E&S risk assessments of clients and transaction, taking E&S risk-mitigating measures such as requiring clients as part of the loan agreements to comply with E&S corrective action plans, developing a framework to monitor the environmental risk management performance of clients;
- Adhering to relevant national and international environmental standards;
- Dedicating resources and training for relevant bank/MFI staff to create awareness about the potential environmental impacts associated with clients' activities, as well as the potential risk to the bank/MFI arising from such impacts;
- Designing tools and practical resources to help ban/MFI staff assess and evaluate the environmental risks involved with potential clients and transactions;
- Requesting client feedback on the bank/MFI's engagement with the client on environmental topics;
- Environmental risk reporting at least annually as part of the Sustainability Report.

Principle 2. We will assess and manage risks that could potentially negatively impact our people, in particular local communities, workers, and indigenous/minority populations.

2.1. Overview and rationale of the Principle

This Principle focuses on the potential negative **social** impacts of a client's business, such as impacts of a certain project on local communities or indigenous/minority populations, issues related to workers' Health & Safety, or insufficient labour standards.

This Principle aims to contribute to:

- compliance with national employment and labour laws;
- safe and healthy working conditions;
- fair treatment, non-discrimination, and equal opportunity of workers;
- the elimination of Worst Forms of Child Labour or hazardous work [3];
- the elimination of forced labour;
- the elimination of human trafficking;
- the elimination of production, use of, trade in, distribution of, or otherwise involving pornography or prostitution;
- the elimination of production, transport, trade or use of illicit drugs;
- promoting inclusion of people with disabilities;
- protecting indigenous/minority populations[4][5].

2.2. Relevant national and international standards

- Cambodian National Policy on Development of Indigenous Minorities, 2009 (Link)
- The NGO Forum on Cambodia (Link)
- The Cambodian Ministry of Labour and Vocational Training (Link)
- The Cambodian Ministry for Rural Development (Link)
- The eight Fundamental International Labour Organisation (ILO) Conventions (Link)
- ILO Labour Standards (Link)
- IFC Performance Standards (PS) (Link): PS2 (Labor and Working Conditions), PS4 (Community Health, Safety, and Security), PS7 (Indigenous Peoples)
- The Universal Declaration of Human Rights (UDHR) (Link)
- The Children's Rights and Business Principles (developed by UNICEF, UN Global Compact and Save the Children) (Link)
- United Nations Declaration on the Rights of Indigenous Peoples (Link)
- ISO 26000 Standard on Social responsibility (Link)
- OHSAS 18000 certification standard for Occupational Health And Safety Management (Link)
- SA 8000 certification standard for Social Accountability in the workplace (Link)
- UN Convention on the Rights of Persons with Disabilities (Link)

2.3. Implementation guidelines

Banks/MFIs assess and manage social risk and issues through the above-mentioned Environmental and Social Management System (ESMS).

The bank/MFI's commitments and general rules for managing the social risks associated with its Business Activities and Business Operations are laid out in the general E&S Policy, which can be accompanied by specific social policies such as a Human Rights policy.

The detailed guidance on how to consistently integrate social considerations into the loan/investment decision-making processes is specified in the E&S Procedures. The E&S Procedures further define the parameters for identifying, assessing, categorising, mitigating, monitoring and reporting on the social risks associated with the bank/MFI's Business Activities.

Additional information on the key elements of a bank/MFI's ESMS is provided in **Annex 1**.

2.4. Good practice references and additional resources

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[3] https://www.ilo.org/ipec/facts/WorstFormsofChildLabour/lang--en/index.htm

[4] Indigenous ethnic minorities in Cambodia are called variously *ethnic minorities, hill tribes, highlanders, highland people, indigenous people,* and *Khmer Leu;* they often call themselves *Choncheat.* (Asian Development Bank, Indigenous Peoples/Ethnic Minorities & Poverty Reduction Cambodia, 2002 - Link)

[5] Indigenous people have traditionally managed forests and are dependent on ecosystem services. Economic land concessions, mining concessions, hydropower dams, land grabbing, deforestation and illegal logging can severely impact the livelihoods of indigenous/minority groups.

- IFC Stakeholder Engagement: A Good Practice Handbook For Companies Doing Business In Emerging Markets (2007) (Link)
- IFC Investing in People: Sustaining Communities through Improved Business Practice - A Community Development Resource Guide For Companies (Link)
- Guide to Human Rights Impact Assessment and Management (International Business Leaders Forum, IFC and UN Global Compact) (Link)
- UN Guiding Principles for Business and Human Rights (UNGPs): Implementing the United Nations “Protect, Respect and Remedy” Framework (Link)
- Application of the UNGPs by the /ing sector (Link)
- Advice to the OECD regarding the application of the UNGPs for the financial sector (Link)
- UNEP FI Human Rights Guidance Tool for the Financial Sector (Link)
- UN Guiding Principles Reporting Framework (comprehensive guidance for companies to report on how they respect human rights) (Link)
- Business and Human Rights Resource Centre (Link)
- Making it Work: Good practices for disability-inclusive development and humanitarian action - A Handicap International Publication (Link)

2.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to develop and implement a social risk management system. This includes, without being limited to, the following:

- Development of social risk reporting framework and criteria (relevant key performance indicators (KPIs) to monitor and report on progress against the bank/MFI’s social commitments);
- Ensuring that the necessary systems are in place to collect relevant data;
- Developing E&S policies (general E&S Policy and specific E&S policies, as applicable), approved by top management, that adequately addresses social issues;
- Developing E&S Procedures that reflect social considerations, with clearly articulated roles & responsibilities, and include them (or summaries thereof) in the external reporting;
- Implementing the E&S Policy and Procedures into the bank/MFI’s Business Activities and Business Operations, in particular including social considerations and criteria in due diligence and business decision-making processes for potential clients and transactions. This includes, among others, screening clients and transactions for E&S issues, performing E&S risk categorisation, carrying out E&S risk assessments of clients and transaction, taking E&S risk-mitigating measures such as requiring clients as part of the loan agreements to comply with E&S corrective action plans, developing a framework to monitor the social risks management performance of clients;
- Adhering to relevant national and international social standards;
- Dedicating resources and training for relevant bank/MFI staff to create awareness about the potential social impacts associated with clients’ activities, as well as the potential risk to the bank/MFI arising from such impacts;
- Designing tools and practical resources to help bank/MFI staff assess and evaluate the social risks involved with potential clients and transactions;
- Requesting client feedback on the bank/MFI’s engagement with the client on social topics;
- Social risk reporting at least annually as part of the Sustainability Report.

Principle 3. We will assess and manage risks that could potentially negatively impact aspects of our cultural heritage, including our language, culture, traditions and monuments.

3.1. Overview and rationale of the Principle

The aim of this principle is to ensure that the rich diversity of Cambodian languages, its culture, traditions and monuments are protected in the present and preserved for the benefit of future generations.

Culture and traditions include practices, representations, expression, knowledge, or skills, as well as the instruments, objects, artefacts and cultural spaces that are part of a place's unique cultural heritage.

Monuments include sites, landmarks or other areas having cultural, historical, scientific or other form of cultural significance (such as an ancient ruin or historical structure, building, city, complex, forest, island, lake, mountain or wilderness area).

3.2. Relevant national and international standards

- Cambodian Law on the protection of Cultural Heritage (Royal Decree 0196/26 of 1996) (Link)
- Cambodian Sub decree 98/2002 respecting implementation of cultural heritage protection (Link)
- Cambodian Ministry of Culture and Fine Arts, Inventory of Intangible Cultural Heritage of Cambodia (2004) (Link)
- IFC Performance Standards (PSs) (Link): PS8 (Cultural Heritage), PS7 (Indigenous People)
- UN Convention Concerning the Protection of the World Cultural and Natural Heritage (Link)
- UN Convention for the Safeguarding of the Intangible Cultural Heritage (Link)
- UNESCO World Heritage List (Link)
- UNESCO World Heritage Sites in Cambodia (Link)
- UNESCO Lists of Intangible Cultural Heritage and the Register of good safeguarding practices, Cambodia (Link)
- Intangible Cultural Heritage in Cambodia (Link)

3.3. Implementation guidelines

Cultural heritage aspects can include (i) tangible forms of cultural heritage, such as property, sites and structures having archaeological, historical, cultural, artistic and religious values; (ii) unique natural features that embody cultural values, such as sacred groves, rocks, lakes and waterfalls; and (iii) certain intangible forms of culture such as cultural knowledge, innovations or practices of communities embodying traditional lifestyles (including language, music, traditions).

Aspects related to cultural heritage are part of the social category of E&S risk/issues, which are assessed and managed through the Environmental and Social Management System (ESMS). Additional information on the key elements of a bank/MFI's ESMS is provided in **Annex 1**.

A bank/MFI should seek to develop and implement an overall E&S policy and procedures framework that adequately address cultural heritage considerations and impacts to cultural heritage potentially arising from a client's activities, a project, or a third party supplier of the client. Cultural heritage aspects should be part of the E&S risk due-diligence processes, in order to ensure that proposed projects/transactions avoid, reduce, restore, and where necessary compensate, for the potential adverse impacts on cultural heritage.

Such considerations could include, but are not limited to:
- Identification and assessment of any cultural heritage associated with clients/transactions;
- Identifying whether such cultural heritage may be negatively impacted by client's activities and/or a transaction or project;
- Identifying whether appropriate standards have been adequately applied;
- Identifying the level of assessment and public consultation that has been undertaken by clients or projects involving cultural heritage;
- Identifying any violations of the laws for the protection of Cambodian cultural heritage or other applicable laws.

Banks/MFIs should not only seek to avoid damage to cultural heritage, but also actively seek to protect and preserve the unique Cambodian cultural heritage. Where possible, banks/MFIs should consider financing or otherwise supporting activities aimed at protecting and preserving the Cambodian cultural heritage.

3.4. Good practice references and additional resources

- HSBC World Heritage Sites and Ramsar Wetlands policy (Link)
- CDC Environmental and Social (E&S) Briefing Note on Cultural Heritage (Link)
- IFC Guidance Note 8 Cultural Heritage, corresponding to IFC Performance 8 (Link)

3.5. Demonstrating progress

Given that aspects related to cultural heritage are assessed and managed as part of the social risk and issues/impacts, a bank/MFI can demonstrate progress in implementing this Principle by adopting the type of measures highlighted for Principle 2, in section 2.5. above. These include, without being limited to:

- Developing and implementing a policy (as a standalone policy, or as part of the general E&S/Sustainability policy) that addresses cultural heritage, including:
  - Clear support for and adherence to relevant national and international laws and standards aimed at preserving and protecting cultural heritage;
  - Cultural heritage considerations and criteria included in E&S due diligence and business decision-making processes;
- Allocating resources and providing training to create awareness about cultural heritage issues for relevant bank/MFI staff;
- Providing tools and practical resources to help bank/MFI staff assess and evaluate the level of cultural heritage risk involved with potential clients and/or transactions, as well as identify potential risk management solutions.

II. Financing the Future of Cambodia

The prospects of our people and our potential economic growth story are critical to the future of Cambodia. The role of the banking sector in financing that future is important. We therefore commit to improve financial education and awareness of our people, to make finance more inclusive to reach the unbanked or underserved, and to finance innovative solutions for more sustainable economic growth. Investing in the next generation and new growth sectors creates more educated and skilled workers, more jobs, more opportunities and more prosperity.

Principle 4. We will increase the financial awareness and literacy of the Cambodian people and improve our approach to customer/client protection.

4.1. Overview and rationale of the Principle

This Principle focuses on the financial literacy and protection of Cambodian people, aiming to ensure that banks/MFIs' customers have the necessary financial knowledge and protection against issues such as over-indebtedness or financial fraud.

A person's education level, income, age and occupational status are considered the main determinants of financial literacy. Research has found that a combination of awareness, knowledge, skill, attitude and behaviour is necessary to make sound financial decisions and ultimately achieve individual financial wellbeing[6].

4.2. Relevant national and international standards

- United Nations Guidelines for Consumer Protection (Link)
- OECD Recommendation on Consumer Dispute Resolution and Redress (Link)
- OECD Guidelines for Consumer Protection in the Context of Electronic Commerce (1999) (Link)
- The Smart Campaign client protection principles (Link)
- Universal Standards for Social Performance Management (Link)
- ISO 26000 Standard on Social responsibility, particularly core subjects on Community Involvement and Development, Consumer Issues and Fair Operating Practices (Link)
- NBC's Code of Banking Sector Customer Protection 2015 (?)

4.3. Implementation guidelines

As part of its sustainability efforts, a bank/MFI should seek to develop an approach and implement the necessary systems to:

A. provide a range of educational tools and resources to increase the financial awareness and literacy of the Cambodian people; and

B. improve customer protection.

A. In order to contribute to the financial awareness and literacy of the Cambodian people, a bank/MFI could:

- consider sector-wide initiatives to promote financial literacy (e.g. organising national financial literacy campaigns);
- focus financial literacy efforts on target groups such as people with low education, people in rural areas where bank services are less accessible, and youth;
- organise financial awareness and literacy lectures, seminars, workshops and other events
- organise media outreach campaigns (short videos, info graphics etc.)
- support the introduction of financial literacy courses into school curricula, as well as financial management / banking products and services knowledge into the secondary school and university curricula;
- consider joining international financial literacy movements such as the Global Money Week.

B. In order to improve customer protection, a bank/MFI should seek to:

- consider developing and adopting an industry-wide set of customer protection principles;
- ensure appropriate product design and delivery channels that do not cause harm to clients (e.g. no aggressive sales techniques);
- establish measures to ensure the protection of vulnerable groups (e.g. avoiding predatory lending) and ensure consumers make use of appropriate products and services;
- prevent over-indebtedness by taking adequate care in all phases of the credit approval process, to determine whether clients have the capacity to repay the loans without becoming over-indebted; furthermore, banks/MFIs should seek to monitor clients for signs of over-indebtedness for the duration of the loan;
- provide information in a manner and language that clients can understand, so that clients can make informed decisions;
- set pricing and product terms & conditions in a responsible manner (e.g. market-based, non-discriminatory pricing);

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[6] Asian Development Bank Institute (ADBI) Working Paper Series - "Determinants and Impacts of Financial Literacy In Cambodia And Viet Nam", June 2017 https://www.adb.org/sites/default/files/publication/325076/adbi-wp754.pdf

- provide transparent information on pricing (e.g. the effective annual interest rate) and on terms and conditions of products;
- ensure that clients are treated fairly and respectfully and are not discriminated against;
- ensure adequate safeguards to detect and correct corruption and aggressive or abusive treatment by staff and bank/MFI agents, during the loan and debt collection processes;
- ensure that the privacy of individual client data is respected in accordance with the applicable laws and regulations;
- ensure that client data is used only for the purposes agreed with the client and permitted by the law;
- set up a mechanism for complaint resolution to resolve individual customer problems and to improve products and services;
- train staff on handling customer complaints;
- use client feedback to improve practices and products;
- adopt customer protection standards such as the SMART campaign standards for microfinance institutions;
- organise educational activities and events for clients.

4.4. Good practice references and additional resources

- Global Money Week (Link)
- Social Performance Task Force (Link)
- Cambodian Microfinance Association (Link)

4.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to develop a policy (as a standalone policy, or as part of the general E&S/Sustainability policy) and implement the necessary systems to increase the financial awareness and literacy of the Cambodian people, and to improve customer protection. This includes, without being limited to, the following:

- develop and implement a policy for improving financial literacy;
- develop and implement a policy for improving customer protection;
- implement internal monitoring systems that support prevention of over-indebtedness;
- establish appropriate grievance mechanisms;
- allocate resources and train staff on financial literacy and customer protection;
- ensure periodical reporting on the bank/MFI’s progress in implementing this Principle.

Principle 5. We will expand our reach to those who previously had no or limited access to the formal banking sector, as well as providing more innovative solutions to improve banking access and service levels.

5.1. Overview and rationale of the principle

Access to financial services is crucial to strengthen the financial sector and can therefore make a significant contribution to the Cambodian social and economic development.

In line with this Principle, banks/MFIs should consider whether their financial products and services are accessible to disadvantaged or under-served segments of society, and where gaps are identified, seek to expand their offerings and outreach. Special attention should be given to expanding the bank/MFI's reach to youth (especially by providing access to loans for education) and to the opportunity for financial inclusion via Fintech solutions.

5.2. Relevant international and national standards

- The Alliance for Financial Inclusion (Link)
- The Maya Declaration on financial inclusion[7] (Link)
- The Global Partnership for Financial Inclusion - G20 Financial Inclusion Indicators (Link)
- FinMark Trust, FinScope Consumer Survey (Link) and FinScope MSME Survey (Link)
- The Global Findex database (Link)

5.3. Implementation guideline

As part of its overall E&S policy and procedures framework, the bank/MFI should seek to develop and implement a financial inclusion policy (e.g. as a standalone policy, or as part of the general E&S/Sustainability policy) that focuses on reaching new segments of the market and innovating and diversifying the types of products and services it offers. Financial inclusion is typically measured in three dimensions: (i) access to financial services; (ii) usage of financial services; and (iii) the quality of the products and the service delivery[8].

When developing a financial inclusion policy, the bank/MFI should identify the barriers to financially excluded groups accessing financial services in Cambodia (e.g. limited knowledge of financial products and services, branch location, minimum requirements for account opening, affordability and suitability of banking services, lack of employment, lack of collateral) and the types of products and services the bank/MFI could offer to ensure that the under-served segments of population have access to suitable banking services.

In implementing this Principle and its financial inclusion policy, a bank/MFI should seek to:

- develop specific products and services for particular target segments, in line with the bank/MFI's business model (e.g. savings accounts for youth, student loan products, products for young or women entrepreneurs);
- expand the reach of its ATM network;
- promote mobile banking, e-banking and other digital and Fintech solutions;
- provide specific development and growth support to minority or excluded groups (e.g. technical assistance, advisory, training);
- conduct education campaign about the benefits of Fintech;
- improve access to bank facilities and services (e.g. flexible banking operation hours, access services for disabled people, online/virtual services etc.);
- create partnerships with other organisations (e.g. microfinance institutions) to increase access to financial products and services.

5.4. Good practice references and additional resources

- IFC Stories of Impact: Financial Inclusion (Link)
- YES Bank Policy for lending to Micro and Small Enterprises (MSEs) of India (Link)
- "Mobile Banking – A case study of Mobile Banking success in Kenya" by the World Bank (Link)
- World Bank Good Practices for Financial Consumer Protection (2017) (Link)
- Consultative Group to Assist the Poor (CGAP) - the Microfinance Gateway library (resources dedicated to microfinance and financial inclusion) (Link)
- Global Partnership for Financial Inclusion information and resources (Link)

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[7] National Bank of Cambodia is a member to the Maya Declaration and pledged to reduce the financial exclusion rate of women from 27% to 13% by 2025.

[8] G20 Financial Inclusion Indicators (Link)

5.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to develop and implement a financial inclusion policy (as a standalone policy, or as part of the general E&S/Sustainability policy). This includes, without being limited to, the following:

- develop and implement a financial inclusion policy that is aimed at increasing the access, usage and quality of the bank/MFI’s products and services. This includes:
  - collecting the necessary data to help define the strategy and subsequently demonstrate progress against the set targets (e.g. data related to the G20 Financial Inclusion Indicators);
  - identifying how financial inclusion aligns with the overall goals and Business Activities of the bank/MFI;
  - identifying the disadvantaged or under-served segments of the population the bank/MFI intends to target, along with the suitable products and services;
  - developing innovative solutions to improve banking access and service levels;
  - specifying any applicable discounts, premiums or other incentives for each products and service;
  - identifying measures to ensure the protection of the targeted consumers;
- allocate human and financial resources and provide staff training to create awareness about financial inclusion strategies, products and services;
- provide tools and practical resources to help bank/MFI staff promote financial inclusion products and services and implement the bank/MFI’s financial inclusion policy;
- report internally and externally on the financial inclusion efforts and achievements.

Principle 6. We will finance innovations that create efficiencies and improvements of existing, traditional sectors and business activities, as well as for developing new green economy activities.

6.1. Overview and rationale of the principle

The United Nations Environment Program defines a **green economy** as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It is a low carbon, resource efficient, and socially inclusive economy[9].

Cambodian banks/MFIs have the opportunity to play an important role in the green economic development, by facilitating and financing projects and other activities involving renewable energy, reduced emissions, resource efficiency, clean production, improved waste management, and other activities that contribute to green economic growth and development. These will further create employment opportunities and improve human health and well-being in Cambodia.

6.2. Relevant national and international standards

- Cambodian National Strategic Plan on Green Growth 2013-2030 (Link)
- Cambodian National Roadmap for Green Growth (2010) (Link)
- Memorandum of understanding on green growth cooperation between the Royal Government of Cambodia's National Council for Sustainable Development and the Republic of Korea's Global Green Growth Institute (Link)
- Global Green Growth Institute - Cambodia Country Planning Framework 2016-2020 (Link)
- ISO 50001 standard on institutional energy management system (Link)
- The Greenhouse Gas Protocol (Link)
- U.S. Green Building Council - LEED international green building certification program (Link)
- U.S. Environmental Protection Agency (EPA) Energy Star (energy efficiency label) (Link)

6.3. Implementation guideline

A bank/MFI should develop and implement a business strategy that adequately addresses green economy considerations. In implementing this principle, banks/MFIs should also consider the Cambodian national Green Growth strategies[10], potential access to international green finance lines, or the development of a Cambodian green finance fund.

In developing its approach, the bank/MFI should consider its existing mix of products and services, as well as market opportunities to develop new green products and services. The bank/MFI should seek to identify whether clients' activities rely on constrained or limited resources, and whether the clients' operations could be improved with the benefit of green methods or technology. In addition, the bank/MFI should take measures in order to educate clients on the business benefits of greener operations.

Banks/MFIs can support green growth by financing a wide range of activities, technologies and equipment, including:

- Supporting clients' finance requirements in climate change mitigation and adaptation projects
- Resource efficiency & Green manufacturing
  - new technologies and equipment that are energy, water or other resources efficient (including maximising the use of raw materials, improving utilisation of natural resources)
  - reducing, reusing and recycling of resources
  - sustainable water resources management
  - management and sustainable land usage
  - pollution abatement (including managing marine pollution)
  - eco-friendly inputs and raw materials
  - waste management
- Protecting and enhancing biodiversity
- Greenhouse gas emissions reduction
- Utilisation of renewable energy (e.g. solar, wind, hydropower, geothermal)
- Green buildings
  - efficient use of energy, water and other resources

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[9] https://sustainabledevelopment.un.org/index.php?menu=1446

[10] For example the Cambodian National Green Growth Roadmap focuses on addressing the following seven goals: Access to clean water and sanitation; Access to renewable energy; Access to information and knowledge; Access to means for better mobility; Access to finance and investments; Access to food security (agriculture) and non-chemical products; and Access to sustainable land use.

- use of renewable energy, such as solar energy
- pollution and waste reduction measures, and the enabling of re-use and recycling
- good indoor environmental air quality
- use of materials that are non-toxic, ethical and sustainable
- consideration of the environment in design, construction and operation
- consideration of the quality of life of occupants (including people with disabilities) in design, construction and operation
- a design that enables adaptation to a changing environment

- Sustainable/Climate Smart Agriculture & Fisheries
  - improvements in agricultural productivity
  - applying innovation to adapt to changing climate conditions
  - improvements in sustainable fishing and aquaculture methods and managing of fish stocks
- Low carbon infrastructure development and green transportation
- Eco/green tourism development - tourism that focuses on preserving and protecting the environment, and on improving the wellbeing of the local population
- Sustainable Supply Chains - integrating sound E&S practices and mitigating E&S risk in the supply chain, including good labour practices
- Technologies and methods that improve the working environment and health & safety conditions.

Examples of green banking products and services include:

- Personal banking – green credit/debit cards; green savings accounts; green credit schemes; green mortgages;
- SME and Corporate Banking – providing green/socially responsible loans e.g. for energy efficiency, renewable energy, GHG reduction, water efficiency, waste reduction, organic agriculture, sustainable fishing, eco-tourism, sustainable supply chain, green leasing for corporate real estate;
- Trade finance - preferential terms for companies that meet sustainable supply chain criteria;
- Project finance – preferentially financing projects that aim to have a positive environmental impact and demonstrate strong capabilities in environmental management; support and develop new finance opportunities for energy efficiency and renewable energy projects;
- Investment Banking – investment portfolios focused on environmentally and socially responsible companies, green bonds.

6.4. Good practice references and additional resources

- HSBC pledge to provide USD100 billion in sustainable financing and investment by 2025 (Link)
- XacBank Eco Banking (e.g. loans for GHG emission reduction, eco car loans) (Link)
- XacBank's experience in becoming an accredited entity of the United Nations' Green Climate Fund (Link)
- Standard Bank products and services related to climate finance (Link)
- Triodos Bank sustainable finance products and services (Link)
- The Nordic Environment Finance Corporation (NEFCO) provides results-based green financing (Link)
- Barclays Low Carbon Energy and Environment Projects Team (Link)
- Royal Bank of Scotland Sustainable Energy funding (Link)
- The Greenhouse Gas Protocol Tools for calculating GHG emissions (Link)
- The Green Growth Knowledge Platform (sector-specific approaches, tools and policy guidance for transitioning to a green economy) (Link)
- OECD Centre on Green Finance and Investment (Link)
- Asian Development Bank - Cambodia: Projects and Results (Link)
- EBRD Sustainable Energy Initiative (Link)
- The Global Climate Partnership Fund (GCPF) (Link)
- The World Bank Climate Investment Funds (CIF) (Link)

6.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to develop and implement a business strategy that adequately addresses green economy considerations. This includes, without being limited to, the following:

- conduct assessment of the bank/MFI's own capabilities, by assessing its product and services offering, its risk appetite and its operational capacity;
- conduct market assessment, e.g. asses the competitive landscape, the market and regulatory conditions that may impact green finance opportunities, the relevant segment's response to climate regulations, take into consideration related technology aspects, identify opportunities to partner with other organizations;

- develop and implement a policy (as a standalone policy, or as part of the general E&S/Sustainability policy) for addressing green economy considerations that includes:

  - definitions of green products and services appropriate for the bank/MFI's core business and growth objectives. These should also specify any applicable discounts, premiums or other incentives for each product and service, the benefits to customers, adherence to any regulations or green initiatives;

  - specific considerations and criteria in due diligence and business decision-making procedures to ensure funds are allocated to qualifying clients and projects;

  - developing calculation methodologies and tools, and collecting data related to the green products and services offered, including environmental and social benefits;

- allocate the necessary human and financial resources (e.g. setting up a green banking unit);
- provide training to staff and clients to create awareness about green products and services;
- provide tools and other practical resources to help bank/MFI staff develop and promote green products and services, and implement the policy;
- report internally and externally on the green products and services.

III. Leading the Way

The banking sector can help shift mindsets and improve standards for a more sustainable and prosperous Cambodia by building awareness of our people and by leading by example. Through this initiative, we seek to be a success story for the Mekong region and Southeast Asia while signalling to external markets and investors that we are aiming for consistency with international good practice.

Principle 7. We will seek to build capacity across the banks to deliver on our commitments as well as raise awareness of our customers and communities about sustainable, inclusive finance.

7.1. Overview and rationale of the principle

This Principle aims to build knowledge of sustainable finance within banks/MFIs and across the banking sector, among banks/MFIs' customers, and among the communities the banks/MFIs serve.

This approach includes building an understanding of the relevant environmental and social issues and impacts, of how and why should banks/MFIs and clients manage them, as well as highlighting the business case for green business opportunities. Developing knowledge and awareness of E&S issues should be a continuous process for both individual banks/MFIs and the banking sector as a whole.

7.2. Relevant national and international standards

- ISO 26000 Standard on Social responsibility (Link)

7.3. Implementation guideline

In implementing this Principle, a bank/MFI should seek to:

- develop and implement, as part of its ESMS and sustainability efforts, capacity building and awareness raising programmes on sustainable finance, tailored to the three target groups:
  - the bank/MFI's staff;
  - the bank/MFI's customers; and
  - the communities in which the bank/MFI operates;
- allocate the necessary financial and human resources (e.g. the bank/MFI can appoint internal Sustainability Champions, internal sustainability trainers);
- develop appropriate learning resources and tools;
- establish collaborative partnerships with other banks/MFIs and organisations (e.g. development agencies, development finance institutions, industry associations, non-governmental organisations, external experts) to deliver capacity building programmes;
- share with other banks/MFIs their sustainability journeys, their achievements and challenges (also in line with Principle 9), to coordinate their capacity building efforts and help each other deliver on their sustainability commitments;
- develop reporting criteria related to the training/awareness raising programmes developed and delivered (e.g. number, frequency, format, content, learning outcomes, numbers of participants trained, functions/roles within the bank/MFI, customers and local communities engaged).

7.4. Good practice references and additional resources

- Sustainable Development Knowledge Platform (Link)
- UN Sustainable Development Goals - The Lazy Person's Guide to Saving the World (Link)
- Drive Sustainability – E&S training programmes for suppliers in the automotive industry (Link)
- IFC Sustainability Training and E-Learning Program (STEP) (Link)
- IFC E-Learning Course on Managing Environmental and Social Performance (Link)
- The Kenyan Bankers Association e-learning platform (Link)

7.5. Demonstrating progress

In order to demonstrate progress in implementing this principle, a bank/MFI should seek to develop and implement capacity building and awareness raising programmes on sustainable finance, tailored for the bank/MFI's staff, its clients and the communities in which it operates. This includes, without being limited to, the following:

- conduct training needs assessment for the three target categories;
- develop a bank/MFI-wide sustainability learning programme for the bank/MFI's staff;
- develop standardised training modules;
- develop online learning platform;
- conduct in-house trainings and train the trainer programs (e.g. induction training for new employees, training of existing employees, training tailored for the Board of Directors and senior management, sponsoring academic learning);

- organise various capacity building activities for customers and communities (e.g. lectures, seminars or workshops on sustainable finance, providing related information on the bank/MFI's website or via newsletters or leaflets);
- organise site visits and practical sustainable finance workshops;
- participate in peer knowledge sharing sessions and expert meetings (e.g. sustainable finance communities of practice);
- participate in national and international study visits and exchanges;
- report periodically on its capacity building activities.

Principle 8. We will manage our own environmental and social (E&S) footprints and request similar standards from our suppliers.

8.1. Overview and rationale of the principle

E&S footprint can be defined as the overall effect or impact that a bank/MFI's Business Operations have on the environment and society in which it operates, such as the amount of natural resources used, the amount of waste produced, the E&S issues of its supply chain, the effects on the bank/MFI's human capital, its clients or on local communities.

In line with this Principle, banks/MFIs should seek to lead by example and put in place the necessary systems to manage the E&S impacts of their Business Operations, and apply the same considerations to their suppliers. These include effectively managing the operational environmental impacts, ensuring employees and clients are treated fairly, and supporting local communities through sustainability activities.

8.2. Relevant national and international standards

- Royal Government of Cambodia, Cambodia Climate Change Strategic Plan 2014-2023 (Link)
- Royal Government of Cambodia, Ministry of Environment, Climate Change Action Plan 2016 – 2018 (Link)
- G20/OECD Principles of Corporate Governance (Link)
- Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (Link)
- Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (June 2017) (Link)
- Climate Change Reporting Framework (Link)
- ISO14001 Environmental Management System and Standards for businesses and organisations (Link)
- ISO 26000 Standard on Social responsibility (Link)
- ISO Waste Standards (Link)
- ISO 50001 Standard on institutional energy management system (Link)
- ISO 37001 Anti-bribery management systems (Link)
- SA 8000 certification standard for Social Accountability in the workplace (Link)
- OHSAS 18000 certification standard for Occupational Health And Safety Management (Link)
- Forest Stewardship Council (FSC) certification (Link)
- Global Water Footprint Assessment Standard (Link)
- U.S. Green Building Council - LEED international green building certification program (Link)
- UK Bribery and Corruption Act 2010 (considered to be one of the leading bribery and corruption policies in the world) (Link)
- The Wolfsberg Principles for the management of financial crime risks (Link)
- Transparency International Global Coalition Anti-Corruption (Link)

8.3. Implementation guideline

A bank/MFI should seek to develop and implement, as part of its ESMS, policies and procedures assessing and managing the E&S impacts associated with its Business Operations, such as:

- a general E&S / Sustainability Policy, which states the bank/MFI's principles and commitment towards certain E&S standards in its Business Operations, as well as its E&S objectives, targets and ambitions;
- specific policies and procedures that further detail the bank/MFI's approach on managing the E&S impacts associated with the Business Operations, such as:
  - Sustainable Procurement Policy
  - Property Management Policy
  - CSR Policy (including community investment programme)
  - Human Resources Policy
  - Health and Safety Policy
  - Emergency Contingency Planning Policy
  - Code of Conduct
  - Anti-bribery and Anti-corruption Policy
  - Conflict of Interest Policy
  - Whistle-blower Protection Policy
- procedures that incorporate into the bank/MFI's operational processes a system for collecting data, measuring and managing the E&S impact of the bank/MFI's Business Operations, including its physical buildings, energy (e.g. fuel and electricity), carbon emissions, resource use (e.g. water, paper), waste, as well as establishing grievance mechanisms for customers/communities.

The overall policies and procedures framework should take into consideration international best practice standards and stipulate the measures for managing E&S issues and opportunities such as:

- reducing energy consumption and Greenhouse Gas (GSG) emissions: increasing efficient energy use, sourcing renewable energy where possible, managing travel and transportation, reducing the GSG emissions in line with Cambodian national targets;
- reducing paper consumption: reducing the consumption of traditional paper products, increasing the use of recycled and sustainably sourced paper products, stimulating paperless banking;
- reducing water consumption;
- waste management and recycling: reducing the bank/MFI's impact on air, water and ground;
- avoiding, reducing, restoring, and where necessary compensating, for the potential adverse impacts of the bank/MFI's Business Operations on cultural heritage;
- ensuring employee safety: aim to ensure that employees have a safe working environment and that they are prepared for emergency situations such as fires or floods;
- ensuring fair employee treatment, employee engagement and well-being: having strong human resources policies that respect and promote employment rights, non-discrimination, diversity and inclusion, ensure employee development and a productive working environment;
- ensuring capacity building and awareness raising on E&S issues for the bank/MFI's staff;
- ensuring fair and responsible treatment of clients;
- defining criteria and standard E&S requirements for suppliers (especially large primary suppliers) and third party contractors to meet and demonstrate that they are managing the associated E&S risks and impacts (including potential negative impacts on cultural heritage);
- supporting local communities: defining a policy (e.g. as a standalone policy, or as part of the general E&S/Sustainability policy) and dedicating resources for working with charity/not-for-profit partnerships (e.g. environmental or social stewardship projects) and community investment (e.g. including employee volunteering, donations etc.);
- addressing corporate governance issues such as:
  - ethical conduct: creating a fair and honest competitive environment that upholds integrity and responsibility and values stakeholders (customers, shareholders and employees, other organisations) in a dignified way;
  - fraud prevention and data security: educating customers and the wider community about online risks and what they can do to improve their own data security and cyber safety;
  - anti-corruption / anti-bribery: an approach to managing the risk of bribery, rules about accepting gifts, hospitality or donations, rules on avoiding conflicts of interest;
  - grievance mechanisms: a system for customers, individuals and communities to complain to the bank/MFI if they believe that the bank/MFI has taken an action that is likely to have adverse effects on them or their community. A grievance mechanism assures a process by which such complaints are promptly reviewed, responded to and remedied, as the case may be;
- ensuring appropriate stakeholder engagement (e.g. engaging with customers, employees, shareholders, government and regulators, industry associations, non-governmental organizations) and reporting on stakeholder feedback.

8.4. Good practice references and additional resources

- Knowledge Hub of the Task Force on Climate-related Financial Disclosures (TCFD) (Link)
- CDP, formerly the Carbon Disclosure Project (Link)
- National Bank of Australia Climate Change Reporting (Link)
- ANZ Climate Change Statement and Climate-Related Disclosures (Link)
- ANZ Supply Chain Management (Link)
- HSBC Statement on Climate Change (Link)
- HSBC Water Programme (programme in partnership with WWF, Earthwatch and WaterAid) (Link)
- HSBC Environmental and Social Targets for the bank's operations (Link)
- Standard Chartered: Being a responsible company (integrated approach to managing sustainability across the bank) (Link)
- Standard Chartered community investment initiatives (Link)
- Water Footprint Network, the Water Footprint Assessment Manual (Link)
- Forest Stewardship Council (FSC) rules and methods guiding the certification of sustainable paper and paper products (Link)
- Universal Standards for Social Performance Management (manual of best practices for microfinance) (Link)

- UN Conference on Trade and Development, Guidance on Good Practices in Corporate Governance Disclosure (Link)

8.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to develop and implement policies and procedures to manage the E&S impacts of its Business Operations. This includes, without being limited to, the following:

- o developing an ESMS that meets international standards (i.e. ISO 14001 standard on environmental management system, ISO 26000 standard on social responsibility) and covers the bank/MFI's position and targets on energy/resource usage, supply chain management, employee and customer protection;
- o developing and implementing a policy for deploying resources for community investment;
- o establishing appropriate E&S data collection processes;
- o allocating resources and training staff to create awareness about sustainability and its relevance for the bank/MFI and its clients and suppliers; ensuring periodical reporting on the bank/MFI's E&S performance and progress against set targets.

Principle 9. We will annually report our individual and sector progress against these commitments to hold ourselves accountable and to share the story and outcomes of our journey and the value we believe can be created for Cambodia.

9.1. Overview and rationale of the principle

In implementing the Cambodian Sustainable Finance Principles, a bank/MFI should develop strong voluntary reporting practices, ensuring a high degree of transparency and accountability. The periodical reporting should evidence the progress against individual and sector E&S commitments and targets, while ensuring client confidentiality.

Where possible, the bank/MFI should actively support relevant industry collaboration relating to E&S topics, and encourage an exchange of knowledge and good practice among Cambodian banks/MFIs, thus helping to level the playing field with regard to sustainable finance.

9.2. Relevant national and international standards

- Global Reporting Initiative (GRI) Sustainability Reporting Standards (Link)
- AccountAbility's AA1000 Series of Standards and Principles for businesses to demonstrate leadership and performance in accountability, responsibility and sustainability (Link)
- International Integrated Reporting Framework (Link)
- Reporting on progress towards the Sustainable Development Goals (Link)
- The UN Guiding Principles Reporting Framework (Link)
- Industry specific disclosure requirements (e.g. Equator Principles (Link), UN Principles for Responsible Investment (Link), UNEP FI Principles for Sustainable Insurance (Link))
- Investment/market-driven disclosures (e.g. Dow Jones Sustainability Index, CDP Disclosures (Link))
- Reporting requirements of individual organisations (e.g. Development finance institutions)
- Cambodian regulatory reporting requirements (Link)

9.3. Implementation guideline

As part of its overall E&S policy and procedures framework, a bank/MFI should seek to regularly monitor and measure performance against each of the Principles, and report progress against targets to its relevant internal and external stakeholders.

When implementing this Principle, a bank/MFI should seek to:

- ensure the necessary systems, processes and tools are in place to collect and consolidate appropriate E&S data;
- determine the most appropriate internal and external reporting frequency and format;
- include clear targets and performance indicators, ideally showing year-on-year targets and progress where possible (e.g. clients/transaction assessed on E&S aspects, staff/clients trained on E&S topics, environmental footprint etc.);
- integrate the internal reporting mechanisms into the decision-making processes of the bank/MFI;
- ensure periodical external reporting on progress against each of the Cambodian Sustainable Finance Principles, towards the public (e.g. in an annual sustainability report and on the bank/MFI's website) and towards National Bank of Cambodia / Association of Banks in Cambodia, as the case may be (for assessing progress against the Principles at sector level);
- ensure periodical external reporting demonstrating progress against other stated E&S objectives and targets;
- share with other banks/MFIs its sustainability journey, its achievements and challenges;
- seek feedback on external reporting and engage with the various stakeholders;
- align with international best practice reporting standards such as the Global Reporting Initiative Sustainability Reporting Standards;
- ensure compliance with relevant national reporting requirements;
- have independent third-party verification of the reported data (e.g. by external auditors).

9.4. Good practice references and additional resources

- National Australia Bank Sustainability Report (2017) (Link)
- ANZ Corporate Sustainability Review (2017) (Link)
- Business Reporting on the Sustainable Development Goals (SDGs): An Analysis of the Goals and Targets, helping businesses improve reporting and performance on the SDGs (2017) (Link)

- The Equator Principles Implementation Note (2014) (Link)
- UNEP-FI Sustainability Management and Reporting: Benefits for Financial Institutions in Developing and Emerging Economies (Link)
- GRI - About Sustainability Reporting (Link)

9.5. Demonstrating progress

In order to demonstrate progress in implementing this Principle, a bank/MFI should seek to publicly report on the E&S performance of their Business Activities and Business Operations, as well as on their progress in implementing the Principles and other E&S commitments. This includes, without being limited to, the following:

- defining appropriate metrics and data requirements and ensuring that the relevant data is collected;
- publishing an annual sustainability report, either as part of the bank/MFI's Annual Report, or as a standalone sustainability report. This may include content published online on the bank/MFI website, and/or in printed reports;
- outlining for each Principle the commitments made and the targets set, the progress made on these (including key metrics and impact measurements), and where appropriate, the successes and challenges in implementing the Principle.

ANNEX 1. Good practice references and additional resources

Table 1. Key elements of an ESMS

E&S Policies
The **general E&S Policy** (or Sustainable Finance Policy, or Sustainability policy) covers both the bank/MFI's Business Activities and Business Operations. The policy describes, among others: • the bank/MFI's principles and commitment towards certain E&S standards, and its E&S objectives and ambitions; • the bank/MFI's commitment to integrate E&S considerations into its business decisions and risk management processes across the bank/MFI or in certain business lines; • the bank/MFI's E&S risk appetite; • the type of activities the bank/MFI would not finance (a **Prohibited/Excluded Activities List**); • the type of sectors, issues and/or banking activities that present an increased E&S risk for the bank/MFI, and which will be subject to a more detailed E&S risk due diligence; • specific E&S requirements for clients and transactions; • E&S considerations for the bank/MFI's Business Operations; • the main roles and responsibilities for implementing the E&S policies; • E&S resources and capacity building requirements; • the context of other specific commitments (e.g. to implementing the Financing the Future of Cambodia - Principles 4, 5, 6); • the internal and external reporting requirements; • the intervals for periodic reviews and updates of the E&S Policy. **Specific E&S policies** can include, as applicable: • Sector policies, stating the rules under which the bank/MFI would engage with companies operating within a particular sector, e.g. in relation to agriculture, hydro dams, forestry or energy industries; • Thematic policies, related to certain groups of E&S issues, for example climate change, human rights or reputational risk; and • Product policies, which apply to particular banking products, such as project finance, financial investments or trade finance.
E&S Procedures and Tools
E&S Procedures and Tools provide detailed guidance on how to consistently implement the E&S policies and integrate **E&S risk due diligence** into the loan/investment decision-making processes. The extent of a bank/MFI's exposure to E&S risks depends on a number of factors including: the nature of the relationship with the client, the type and tenure of the services provided, the sector of the respective business, client's ability to manage identified E&S risks. **The E&S Procedures** define the parameters for identifying, assessing, categorising, mitigating, monitoring and reporting on the E&S risks associated with its Business Activities. ➢ **Initial E&S Risk Screening**: clients and transactions are screened for E&S issues based on high-level information. The E&S issues screened should include, among others, the ones highlighted by these Principles: o climate change; o pollution (including soil, water and air); o waste management; o Cambodia's critical natural resources (water, natural forests & habitats, biodiversity); o health & safety, human rights, non-discrimination, child/forced labour, employment standards, protection of local communities and indigenous/minority populations; and o aspects of Cambodian cultural heritage, including language, culture, traditions and monuments. The initial screening also filters out potential Prohibited/Excluded Activities. Based on the Initial E&S Risk Screening, the client engagement/transaction: o is stopped (if it is a Prohibited/Excluded Activity); o can proceed without further E&S risk due diligence (which means that no relevant E&S risks have been identified); or o requires further E&S risk due diligence. ➢ **E&S Risk Assessment of Clients and Transactions** Two types of assessments can be used as part of the additional E&S due diligence:

1. Client E&S risk assessment, which measures the client's commitment, capacity and track record to manage the E&S impacts of its activities; and
2. Transaction E&S risk assessment, which measures the E&S risks associated with a specific transaction and the underlying project or asset.

- **E&S Risk Categorisation**: The combination of the Client and the Transaction E&S risk assessments provides an overall E&S risk level (e.g. High, Medium or Low), which determines the extent of any further E&S risk due diligence required (e.g. E&S impact assessments, external E&S audit reports) and any applicable E&S risk mitigation measures.
- **E&S Risk Mitigating:** based on the overall E&S risk profile and other relevant factors, the bank/MFI may take several risk-mitigating actions, including:
  - E&S requirements incorporated into loan documentation; this can include the requirement that a client E&S correction action plan is put in place, to mitigate the identified E&S risks;
  - certain high-risk transactions may involve hiring external E&S expertise and could be subject to higher decision-making authorities (e.g. a Board committee);
  - high-risk projects may require regular on-site visits throughout the life of the loan;
  - financing may be approved subject to E&S conditions (precedent or subsequent to disbursement);
  - client risk monitoring performed at shorter intervals.
- **E&S Risk Monitoring & Internal Reporting**: E&S risk can be monitored as part of the regular credit risk management cycle, and the monitoring efforts should be commensurate with the E&S risks associated with the borrower/transaction. The bank/MFI needs to monitor whether clients comply with the E&S requirements (e.g. with the requirements stated in the loans and in the E&S corrective action plans) throughout the duration of the loans, and ensure appropriate internal reporting of E&S risk.

  Banks/MFIs can also conduct regular sector-based **portfolio reviews**, which provide insight into their aggregate exposure to E&S risks. Furthermore, banks/MFIs can seek to monitor carbon risk exposures at portfolio level.
  Portfolio reviews are a useful tool for banks/MFIs to monitor their sectoral exposure, risk concentration, percent of high-risk activities or climate-sensitive businesses.

  Specifically related to climate change, banks/MFIs should seek to develop methodologies to assess and monitor the risks and opportunities from the physical impacts as well as from the transition impacts of climate change on their loan portfolios. To this end, banks/MFIs can begin to assess climate risks in their loan portfolios for climate-sensitive sectors, using climate change scenarios and methodologies that evaluate impacts on key credit risk metrics.

Examples of E&S tools include:

- E&S risk categorisation checklist;
- Client E&S questionnaires;
- Guidelines for E&S due diligence;
- List of key words that can be used in E&S internet searches (e.g. when researching a client's E&S track record);
- Standard E&S loan covenants;
- Template for Terms of Reference for contracting independent E&S consultants (e.g. for high risk projects);
- Template for client E&S action plan;
- Client E&S risk monitoring templates;
- Knowledge resources for bank/MFI staff.

E&S Governance Structure

The bank/MFI's **E&S governance structure** should be tailored according to the size and complexity of the bank/MFI, as well as to the bank/MFI's E&S risk profile. The bank/MFI needs to define and allocate E&S roles and responsibilities (including approval authorities) to the relevant functions in the bank/MFI (e.g. senior management, Board of Directors, E&S Risk Officer/Unit , relationship managers, credit analysts, Credit Risk/Investment Committees, Internal Audit, Legal, Human Resources, Procurement, Communications departments).

Relevant factors to be considered when designing the E&S governance structure include:

- the function(s) responsible for developing and updating the overall E&S policies and procedures framework;
- the senior executive(s) ultimately responsible for the bank/MFI's E&S performance;
- new functions that need to be created to implement the E&S policies;
- the existing departments that will need to integrate E&S considerations into their processes;
- E&S risk approval authorities;
- the function responsible for E&S risk controls;
- the functions responsible for reporting on E&S performance, internally and externally;
- E&S training needs.

E&S Reporting
While recognising the need to maintain client confidentiality, banks/MFIs should promote transparency and report, internally and externally, on the E&S performance of their Business Activities and Business Operations, as well as on their progress on implementing their E&S commitments. **E&S reporting** may include: - reporting on E&S risk performance of Business Activities, such as: o number of transactions and clients screened/assessed/declined for E&S risk o number of clients/transactions identified as high risk o number of transactions/clients with agreed E&S action plans o number of transactions/clients in compliance with the agreed E&S action plans o number of clients with improved E&S risk categorisations as a result of engagement or E&S action plans o number of client relationships exited for poor E&S performance o number of clients engaged on E&S topics o level of exposure to high E&S risk sectors o climate risk reporting (e.g. based on the work of the Task Force on Climate-related Financial Disclosures) - reporting on the implementation of relevant standards, e.g. the Cambodian Sustainable Finance Principles; - reporting on fulfilling other E&S objectives/commitments as stated in the bank/MFI's E&S policies.
E&S Capacity Building
The effective implementation of the overall E&S policy and procedures framework is supported by appropriate **E&S capacity building**. The bank/MFI should seek to provide regular training for the relevant staff on how E&S considerations are integrated into its Business Activities and Business Operations. This includes training related to the Cambodian Sustainable Finance Principles. E&S trainings can be organised and delivered by the E&S Officer together with the Human Resources department, and where needed, with external specialist support.

ANNEX 2. Glossary of Terms and Abbreviations

Term / Abbreviation	Definition or Explanation
Business Activities	For the purposes of these guidelines, the Business Activities of a bank/MFI include, without being limited to, the provision of financial products and services to clients, such as: corporate banking, project finance, project finance advisory, structured commodity finance, investment banking, equity investments, trade finance, leasing, small and medium size business lending, microfinance, retail banking.
Business Operations	For the purposes of these guidelines, the Business Operations of a bank/MFI include, without being limited to, the bank/MFI's processes and resources used in providing its products and services. These include human resources, assets and infrastructure (e.g. offices, branches, equipment), suppliers, contractors and third party providers that a bank/MFI engages in the course of facilitating its Business Activities and Business Operations.
Cultural Heritage	The legacy of tangible and intangible forms of culture of a group or society that are inherited from past generations, maintained in the present and bestowed for the benefit of future generations. Cultural heritage aspects can include: (i) tangible forms of cultural heritage, such as property, sites and structures having archaeological, historical, cultural, artistic and religious values; (ii) unique natural features that embody cultural values, such as sacred groves, rocks, lakes and waterfalls; and (iii) certain intangible forms of culture such as cultural knowledge, innovations or practices of communities embodying traditional lifestyles (including language, music, traditions).
E&S	Environmental and Social
E&S footprint	The overall effect or impact that a bank/MFI's Business Operations have on the environment and society in which it operates, such as the amount of natural resources used, the amount of waste produced, the E&S issues of its supply chain, the effects on the bank/MFI's human capital, its clients or on local communities.
E&S impact	A change (a) to the physical, natural, or cultural environment, or (b) affecting the local community or workers, resulting from the business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible environmental or social changes. Such impacts can include changes to the atmosphere, water and land (e.g. emission of greenhouse gases, pollution, changes to habitats), or impacts on a client's workforce or on the local community (e.g. occupational health and safety issues, human rights violations, corruption).
Overall E&S policies and procedures framework	The set of internal policies (general Sustainability/Sustainable Finance/E&S Policy, as well as specific E&S policies), strategies, and related procedures that define the rules for managing the E&S risks and opportunities in the bank/MFI's Business Activities and Business Operations.
E&S risk	The actual or potential threat of adverse environmental and/or social impacts associated with a client or transaction, which should be considered as part of the business decision-making processes of the bank/MFI.
E&S opportunities	Business prospects driven by environmental and social risks, such as financial products and services that support the development of clean or renewable energy, clients' actions in climate adaptation, eco-tourism, improving health & safety conditions, job creation or community development.
ESMS	Environmental and Social Management System
Equator Principles	A voluntary set of standards for identifying, assessing and managing environmental and social risks in project financing.
Fintech	The provision of financial services by making use of software and modern technology. Fintech and digital finance could enable financial service providers to reach more remote areas at a lower cost in a safer way and at a larger scale.
Green Economy	Economy that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It is a low

	carbon, resource efficient, and socially inclusive economy.
High Conservation Values (HCV)	Biological, ecological, social or cultural values that are outstandingly significant or critically important at the national, regional or global level.
Human Rights	Rights and freedoms inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to human rights, without discrimination.
IFC	International Finance Corporation
Indigenous Peoples	A distinct social and cultural group possessing the following characteristics in varying degrees: - Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; - Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories; - Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or - A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.
Sustainable Finance	The provision of financial products and services integrating environmental, social and governance criteria into the business or investment decisions, aiming for long-term economic development that is not only economically viable, but also environmentally responsible and socially relevant.
TCFD	The Financial Stability Board's Task Force on Climate-related Financial Disclosures
UN	United Nations
UNEPFI	United Nations Environment Finance Initiative