
Green, Social, and Sustainability Bonds in Cambodia: Status and Prospects in Q1 2024

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Introduction

The Royal Government of Cambodia (RGC) is deeply committed to combating climate change and fulfilling its obligations under the Paris Agreement and the Sustainable Development Goals (SDGs). As the nation aims at significant climate adaptation and mitigation, financial strategies including Green Bonds are considered pivotal. Despite their potential, only a limited number of bonds have been issued, with none qualifying as Green Bonds, highlighting a major opportunity for growth and impact. The adoption of the Paris Agreement in 2015 marked a global consensus on reducing climate change effects, focusing on low-carbon initiatives such as Green Bonds. These bonds are part of a broader category known as Thematic Bonds, which fund projects with explicit environmental and social benefits. Despite their growing popularity, challenges such as high issuance costs and complex regulatory frameworks are notable, especially in emerging markets like Cambodia.

The International Capital Market Association (ICMA)¹ sets guidelines and standards for issuing bonds to achieve social and environmental objectives. In addition to the Green Bond Principles (GBP), which are designed for bonds financing environmentally friendly projects, ICMA has developed additional frameworks:

1. Green Bond Principles (GBP)² : a set of voluntary guidelines to promote transparency and integrity in the green bond market. These guidelines are designed to assist issuers, investors, and other market participants in ensuring that green bonds truly finance environmentally beneficial projects.

Green bonds finance a wide range of environmentally friendly projects, with some of the key sectors being: Renewable Energy (solar, wind, geothermal, etc.), Energy Efficiency (building retrofits, efficient appliances), Sustainable Waste Management (recycling, waste-to-energy), Clean Transportation (electric vehicles, public transport), Sustainable Water Management (water efficiency, treatment), Land Use & Forestry (conservation, sustainable practices), Climate Change Adaptation (resilient infrastructure)

2. Social Bonds Principles (SBP)³: These principles guide the issuance of bonds specifically intended to finance projects with positive social outcomes, such as affordable housing, education, and healthcare.
3. Sustainability Bonds Guidelines (SBG)⁴ : These guidelines assist issuers who want to raise capital through bonds that finance a combination of both green and social projects, thus supporting overall sustainability goals.
4. Sustainability-Linked Bonds Principles (SLBP)⁵ : This set of principles is for bonds that are linked to the achievement of sustainability objectives that the issuer commits to meet. Unlike green or social bonds, which finance specific projects, sustainability-linked bonds are tied to the issuer's overall performance on sustainability targets.

The Current State of Green Bonds in Cambodia

While Green Bonds are a global phenomenon, Cambodia's market is still in its infancy. This is partly due to excessive issuance costs, lengthy approval processes,

1 [International Capital Market Association \(ICMA\) https://www.icmagroup.org/](https://www.icmagroup.org/) (ICMA, 2024)

2 <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/> (ICMA, 2022)

3 <https://sustainable-infrastructure-tools.org/tools/social-bonds-principles-sbp/> (ICMA 2023)

4 <https://sustainable-infrastructure-tools.org/tools/sustainability-bond-guidelines/> (ICMA,2021)

5 <https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf> (ICMA, 2023)

and a nascent regulatory environment. However, these challenges are not insurmountable. Enhanced policy frameworks, alignment with international standards, and active collaboration among market participants could significantly improve the situation.

Green bonds and sustainability bonds are gaining traction in Cambodia as part of the broader effort to develop a sustainable finance market within the country. The Cambodian government and various organizations have initiated programs to support the issuance of these bonds, addressing both environmental and social projects.

In recent developments, two Cambodian private companies were the first for green and sustainability bond issuance in 2022⁶ and 2023⁷.

- Golden Tree Co. Ltd⁸, a real estate company in Cambodia, was supported in issuing its first green bond of USD \$2.5 million. The proceeds from this bond are specifically aimed at green building development. The bond, which comes with a seven-year maturity and a fixed coupon rate of 7% per annum
- CAMGSM PLC⁹, also known as Cellcard, a leading telecommunications operator in Cambodia, issued the country's first-ever sustainability bond of USD \$20 million on November 24, 2023. The proceeds from this sustainability bond are designated for improving Cellcard's network and infrastructure, particularly focusing on renewable energy projects and expanding connectivity to underserved communities. The bond, which comes with a ten-year maturity and a coupon rate that is higher of SOFR plus 3% or 5.5% per annum, was fully subscribed by major institutional investors like Manulife and Prudential, with a 100% guarantee from GuarantCo.

Moreover, the Cambodia Sustainable Bond Accelerator Program¹⁰ was launched to expand the green and sustainable bond market. This initiative is backed by partnerships with international bodies like the United Nations Economic and Social Commission for Asia and the

Pacific (UNESCAP) and the Global Green Growth Institute (GGGI), CGIF or Credit Guarantee & Investment Facility (ADB), and GuarantCo (part of the Private Infrastructure Development Group or PIDG).

The Securities and Exchange Regulator of Cambodia (SERC)¹¹ plays a significant role in promoting and regulating the issuance of these bonds. Guidelines and frameworks have been set up to ensure transparency and integrity in the issuance process, which includes clearly defining the use of proceeds, assessing, and selecting projects, managing proceeds, and mandatory reporting on the impacts and outcomes of the funded projects. These efforts are complemented by tax incentives for issuers and a push to attract national and international investors to participate in Cambodia's burgeoning green and sustainable bond markets.

The Role of Universities

Universities are uniquely well positioned to contribute towards the development of the Green Bond market in Cambodia. They can provide research support, professional training, and certification programs that are crucial for capacity building. This involves not only academic curriculum development but also partnerships with financial institutions and government bodies to ensure that the educational offerings are practical and relevant. For instance, CICERO¹², was an independent research center founded in 1990 by the Norwegian government, focusing on interdisciplinary climate research and environmental studies in Norway. Affiliated with the University of Oslo, CICERO tackles climate challenges and climate finance through research and collaboration with the public and private sectors. They have been actively involved with the IPCC since 1992 and their "Shades of Green" business was acquired by S&P Global Ratings in 2022¹³. Through this acquisition, S&P ambitions to further expand its expertise as second-party opinions (SPOs) for the GSS+ Bonds.

The primary challenges include limited understanding and recognition of Green Bonds, a need for standardized procedures, and a lack of technical expertise (Ho, 2023)¹⁴

6 <https://www.khmertimeskh.com/501222765/golden-tree-announces-first-green-bond-official-listing-on-csx/> (KT, 2022)

7 <https://www.khmertimeskh.com/501384050/cambodias-capital-market-promotes-sustainable-financing/> (KT, 2023)

8 <http://csx.com.kh/company/announce/viewPost.do?MNCD=5040&postId=1491> (CSX, 2022)

9 <http://www.csx.com.kh/news/notice/viewPost.do?MNCD=8020&postId=577> (CSX 2023)

10 <https://gggi.org/gggi-unescap-and-serc-sign-moa-and-launch-the-cambodia-sustainable-bond-accelerator-program/> (GGGI, 2023)

11 <https://www.adb.org/sites/default/files/publication/827631/green-bond-market-survey-cambodia.pdf> (ADB, 2022)

12 <https://cicero.oslo.no/en> (CICERO, 2024)

13 <https://www.spglobal.com/ratings/en/products-benefits/products/shades-of-green> (S&P, 2022)

14 <https://cam-ed.edu.kh/capacity-building-in-green-bonds-in-cambodia/>

. On the other hand, opportunities lie in leveraging academic institutions as hubs for innovation and knowledge dissemination, which can play a transformative role in the finance sector, especially in emerging markets.

Recommendations

1. **Policy Enhancement:** Develop a clear and consistent policy framework for Green Bonds, aligning it with international practices to enhance credibility and attract global investors.
2. **University Involvement:** Integrate sustainable finance into university curricula and establish specialized training programs to equip stakeholders with the necessary skills.
3. **Public-Private Partnerships:** Encourage collaborations between universities, government, and the private sector to foster innovation and practical learning.
4. **Awareness and Advocacy:** Universities should actively participate in public awareness campaigns to highlight the benefits of Green Bonds and sustainable investments.
5. **Research and Development:** Continuous research is needed to monitor Green Bonds' impact and innovate new financial instruments that support sustainable development.

Conclusion

While Cambodia's green bond market is young, it's showing positive signs. The recent issuances by Golden Tree and CAMGSM demonstrate a growing interest in financing environmentally and socially sustainable projects. The Cambodia Sustainable Bond Accelerator Program, along with clear regulatory frameworks from SERC, is contributing to a more supportive environment for future issuances.

However, challenges remain. Limited public awareness, standardized procedures, and technical expertise need to be addressed. Universities can play a pivotal role by providing research, training, and knowledge dissemination to bridge these gaps.

Overall, Cambodia's green social, sustainability (GSS) bond market holds significant promise for achieving sustainability targets and fostering sustainable economic

growth. Through continued policy improvements, university involvement, and public awareness efforts, Cambodia can unlock the full potential of GSS bonds.

The potential of GSS+ Bonds in Cambodia is immense but underutilized both in the private and public sectors. For example, according to the Ministry of Environment (MoE), and National Council for Sustainable Development (NCSD) on Cambodia's Nationally Determined Contribution (NDCs¹⁵), the total funding requirement for climate mitigation is approximately US\$ 5.8 billion (forestry, land use, waste, and energy) and total funding required for adaptation actions is over US\$ 2 billion (infrastructure, water, and agriculture). The NCSD also stated that without investment in adaptation, climate change could cost Cambodia 1% of GDP every year by 2030, and all economic growth could be wiped out entirely due to climate change impacts by 2050¹⁶.

With strategic policy adjustments and the active involvement of academic institutions in capacity building, Cambodia can pave the way for a robust Sustainability Bond market. This will not only help in achieving environmental targets but also in fostering economic growth through sustainable investment and enriching the sustainability ecosystem.

DOI: <https://doi.org/10.62458/CamEd/OAR/ACBSP/73-86> (CamEd, 2023)

15 https://ncsd.moe.gov.kh/resources/document/Cambodia_NDC_Updated (MOE, 2020)

16 <https://www.khmertimeskh.com/37807/cambodia-needs-to-seize-the-opportunities-in-climate-finance/> (KT, 2016)