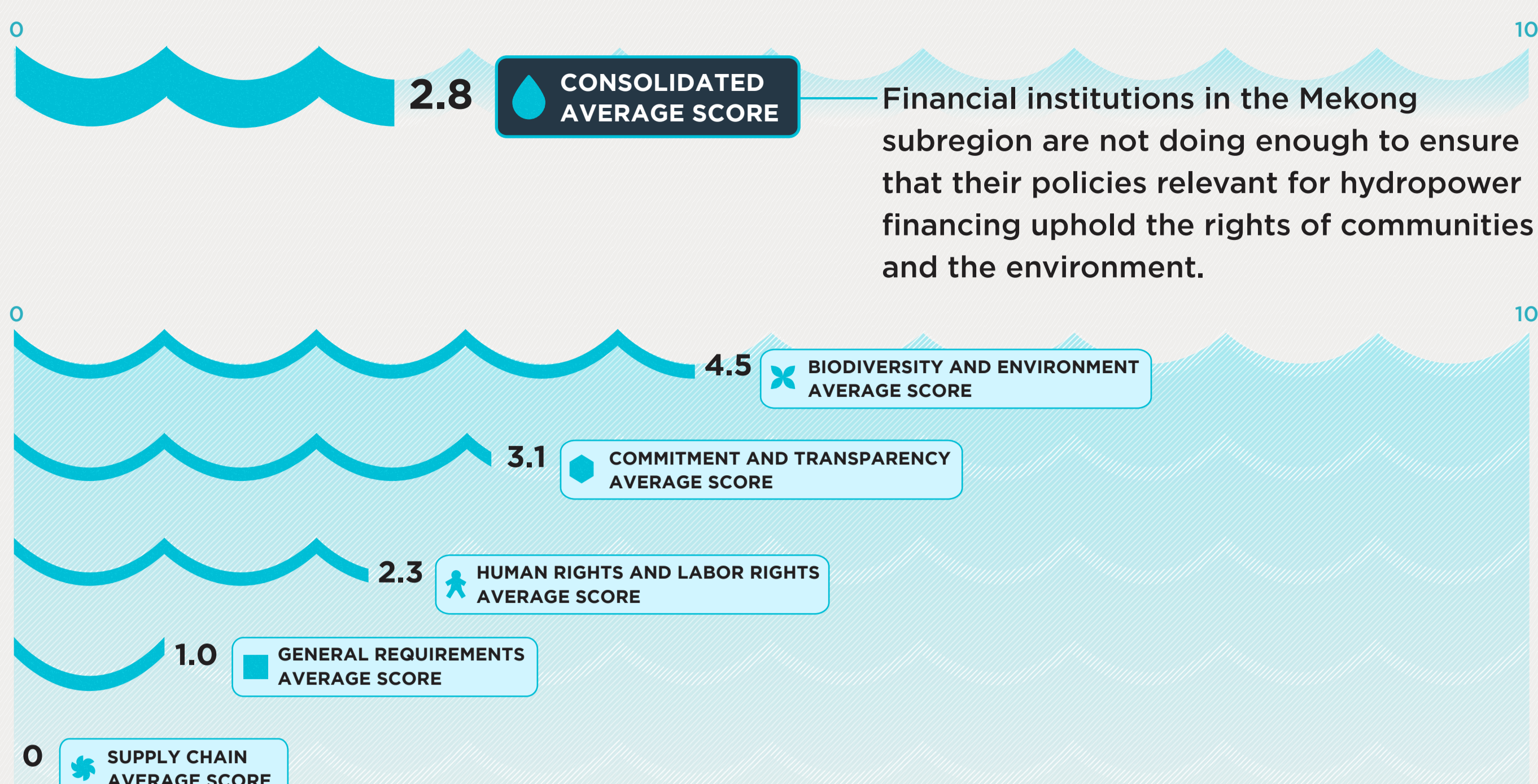


POLICY ASSESSMENT OF FINANCIAL INSTITUTIONS

AVERAGE POLICY ASSESSMENT SCORES PER THEME

The financial institutions assessed were Bangkok Bank, Krung Thai Bank, Siam Commercial Bank (SCB), Asia Commercial Joint Stock Bank (ACB), Dragon Capital Group, and Vietnam Prosperity Joint Stock Commercial Bank (VPBank).



Financial institutions in the Mekong subregion are not doing enough to ensure that their policies relevant for hydropower financing uphold the rights of communities and the environment.

CONSOLIDATED

Refers to the overall average score on a 10-point scale of the 6 financial institutions against criteria based on international sustainability standards spread across 5 main themes.

COMMITMENT AND TRANSPARENCY

Assesses whether financial institutions have policies and mechanisms to address environmental and social risks related to the hydropower sector, and have a human rights due diligence (HRDD) process in their lending and/or investment activities.

GENERAL REQUIREMENTS

Assesses whether financial institutions have formulated expectations for financed companies to develop policies and processes addressing the environmental and social risks surrounding hydropower projects, such as the risk of involuntary resettlement, or the assessment of cumulative impacts of hydropower projects.

BIODIVERSITY AND ENVIRONMENT

Assesses whether financial institutions require companies they invest in, or finance, to have policies that ensure the protection of animal species and ecologically protected areas. This theme also assesses whether financed/investee companies sufficiently assess the (potential) adverse environmental impacts of the hydropower projects.

HUMAN RIGHTS AND LABOR RIGHTS

Assesses whether financial institutions require financed or investee companies to adhere to international standards in human rights and labor rights (e.g., forced and child labor, Indigenous Peoples' rights, community compensation schemes, and identification of the gendered impacts of the hydropower projects on local communities).

SUPPLY CHAIN

Assesses whether financial institutions require financed companies to integrate criteria on biodiversity, human rights, and labor rights in their supply chain.

*In the policy assessment, financial institutions from Thailand were selected based on the value of their loans to customers and the proportion of outstanding loans in the utilities and services industry, which was deemed most closely related to hydropower. For financial institutions in Vietnam, selection was based on consideration to highlight their good practices in environmental, social, and governance (ESG) commitment and further engagement with the selected banks.

COUNTRIES IN THE MEKONG SUBREGION EXHIBIT VARYING DEGREES OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) SUSTAINABILITY STANDARDS AND NORMS INTEGRATION IN THEIR POLICY LANDSCAPE.

✓ Positive ! Area for improvement

BANKING SUPERVISION

✓ Under the Cambodian Sustainable Finance Initiative (CSFI), the signatory banks are expected to develop and implement an Environmental and Social Management System (ESMS) that recommends ESG-integration in bank policies.

CAMBODIA

! The Association of Banks in Cambodia (ABC) is encouraged to make the CSFI and Implementation Guidelines mandatory. According to the World Bank in 2023, Cambodia's 'regulations for banks, insurers, and large investors do not yet include specific disaster and climate risk requirements.'

ENABLING ENVIRONMENT

✓ In 2021, Cambodia adopted its Long-Term Strategy for Carbon Neutrality.

! As authors of this strategy, the Ministry of Environment (MoE) and National Council for Sustainable Development (NCSDD) should ensure that the document specifically refers to financial institutions, and set targets for carbon neutrality at portfolio level.

✓ Bank of the Lao PDR (BoL)'s vision for bank supervision development published in 2017 includes building a safe, sound, sustainable, and modernized banking industry that is able to integrate with international markets.

LAO PDR

! The BoL is encouraged to provide details on how the sustainability agenda and environmental and social factors can be integrated into its banking supervision agenda.

✓ An important step was taken in June 2023 to incentivize climate finance and build an enabling environment when the Government of Lao PDR, the Government of Australia, and the Global Green Growth Institute (GGGI) signed a partnership agreement aimed at supporting carbon market development in the Lao PDR.

! The Bank of Lao PDR (BoL) should include environmental and social considerations in its monetary policy. Financial regulators in Lao PDR are encouraged to promote and enable sustainable finance initiatives.

✓ In Thailand, principle-based supervisory expectations related to sustainable banking, summarized in the 'Sustainable Banking Guidelines - Responsible Lending' are applicable to all supervised commercial banks.

THAILAND

! Rule-based micro-prudential regulations in Thailand should include ESG factors. Regulators should urge banks to integrate Environmental & Social (E&S) considerations in their Internal Capital Adequacy Assessment Process (ICAAP) and in their liquidity risk management process.

✓ In June 2023, the Thailand Taxonomy (Phase 1), a classification system for sustainable activities developed through a science-based and multi-stakeholder process, was released. Thailand also published its Guidelines on the Issuance and Offer for Sale of Green Bonds, Social Bonds, and Sustainability Bonds, which are based on relevant ASEAN standards and are expected to create a robust market for sustainable financial products.

! Thailand is encouraged to set targets or create incentives for banks to support the transition to a net-zero and nature-positive economy.

✓ The State Bank of Vietnam (SBV) has been actively integrating E&S considerations in its banking sector supervision activities. It has created regulatory expectations for commercial banks and set a number of goals to be achieved by 2025.

VIETNAM

! The SBV is encouraged to provide more clarity regarding the sector policies that it expects from commercial banks on financing and lending to sensitive sectors and projects, such as hydropower, that may have negative or controversial environmental and social impacts.

✓ The State Bank of Vietnam has published its Green Project Catalogue, emphasizing six key categories of green initiatives as priorities.

! Vietnam is encouraged to complete and release its green taxonomy, and align it with the ASEAN Taxonomy.