

# Enhancing Sustainability Reporting in the GFT Sector in Cambodia

Sustainability  
Recommendation  
Paper



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## Acronyms

<b>BFC</b>	Better Factories Cambodia
<b>BMZ</b>	German Federal Ministry of Economic Cooperation and Development
<b>BSCI</b>	Business Social Compliance Initiative
<b>CSDDD</b>	Corporate Sustainability Due Diligence Directive
<b>CSR</b>	Corporate Social Responsibility
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>CDSB</b>	Climate Disclosure Standards Board
<b>CDP</b>	Customer Data Platform
<b>EBA</b>	Everything But Arms
<b>ESG</b>	Environmental, Social, and Governance
<b>EFRAG</b>	European Financial Reporting Advisory Group
<b>ETI</b>	Ethical Trading Initiative
<b>FABRIC</b>	Fostering and Advancing Sustainable Business and Responsible Industrial Practices in the Clothing Industry in Asia
<b>FLA</b>	Fair Labor Association
<b>FWF</b>	Fair Wear Foundation
<b>GFT</b>	Garment, Footwear, and Travel Goods
<b>GIZ</b>	German Agency for International Cooperation
<b>GRI</b>	Global Reporting Initiative

<b>HIGG</b>	Higg Index (Sustainability Measurement Tool by the Sustainable Apparel Coalition)
<b>HRDD</b>	Human Rights Due Diligence
<b>HREDD</b>	Human Rights and Environmental Due Diligence
<b>IFC</b>	International Finance Corporation
<b>IMF</b>	International Monetary Fund
<b>ILO</b>	International Labour Organization
<b>ISO</b>	International Organization for Standardization
<b>ISSB</b>	International Sustainability Standards Board
<b>KPI</b>	Key Performance Indicator
<b>LDC</b>	Least Developed Country
<b>LkSG</b>	Gesetz über die unternehmerischen Sorgfaltspflichten in Lieferketten (German Supply Chain Due Diligence Act)
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PRI</b>	Principles for Responsible Investment
<b>PCAF</b>	Partnership for Carbon Accounting Financials (PCAF)
<b>RBH</b>	Responsible Business Hub
<b>RGC</b>	Royal Government of Cambodia
<b>SAC</b>	Sustainable Apparel Coalition
<b>SDGs</b>	Sustainable Development Goals

<b>SSE</b>	Sustainable Stock Exchanges
<b>SASB</b>	Sustainability Accounting Standards Board
<b>SBTs</b>	Screen Based Trading System
<b>TAFTAC</b>	Textile, Apparel, Footwear & Travel Goods Association in Cambodia
<b>UNDP</b>	United Nations Development Program
<b>UNEP</b>	United Nations Environment Program
<b>UNGPs</b>	United Nations Guiding Principles on Business and Human Rights
<b>UFLPA</b>	Uyghur Forced Labor Prevention Act
<b>WBCSD</b>	World Business Council for Sustainable Development
<b>ZDHC</b>	Zero Discharge of Hazardous Chemicals



# Sustainability Recommendation Paper on Enhancing Sustainability Reporting in the GFT Sector in Cambodia

## Disclaimer

This paper presents findings related to sustainability reporting in Cambodia's garment, footwear, and travel goods (GFT) sector. It is important to note that not all parties or organizations involved may agree with every viewpoint expressed. Nevertheless, all organizations have put their names and logos on this paper in solidarity, committed to supporting efforts that enhance sustainability reporting practices in the sector.

The information in this document should not be construed as legal advice or a legal opinion regarding the interpretation of any laws, specific facts, or circumstances. It is provided for general informational purposes only. You are urged to consult legal counsel for any specific legal questions or situations that may arise.

Furthermore, some of the legislation referenced in this paper remains in the early stages of development. The guidance and recommendations offered are based on the latest available draft at the time of writing (October 2024) and may not reflect subsequent changes or updates. Findings should not be attributed to any organization without the context of this disclaimer. The intention of this paper is to facilitate cooperation among various stakeholders in the garment supply chain for greater good. The essence of this paper is collaboration and joint action.

### Five Key Takeaways:

- 1. We are Witnessing a Global Shift to Mandatory Sustainability Reporting:** Sustainability reporting is becoming an integral part of international business. Legal frameworks differ globally, from disclosure requirements to human rights due diligence, but reporting is increasingly a requirement for key markets, including Europe, North America, East Asia, and Australia. This is a trend that is highly likely to continue.
- 2. Effective Sustainability Reporting Depends on Robust Management Systems:** Sustainability reports are the result of businesses systematically collecting data on their operations. Reliable and actionable reports require efficient management systems that ensure accurate data collection and analysis.
- 3. Responsible Business Practices Benefit a Company's Bottom Line:** While unsustainable practices are often viewed as cost-saving measures, such as by shifting costs onto communities or the environment, research shows that responsible business practices, especially in human rights, can deliver substantial returns. Benefits include increased worker productivity, reduced absenteeism, higher employee retention, and lower recruitment and training costs.
- 4. Transparency Must Involve Shared Responsibility Between Trading Partners:** Sharing data, particularly about risks related to human rights or environmental issues, requires careful handling. Although legislation emphasizes that terminating relationships should be a last resort, suppliers may worry about losing orders if they disclose problems. Clear protections and support for suppliers who share data are crucial to building trust and promoting improvements.
- 5. Industry Coordination and Government Support Can Make Sustainability Reporting More Cost-Effective for the GFT Sector:** Pre-competitive collaboration between industry and government can create efficiencies that lower the cost of sustainability reporting for Cambodian garment, footwear, and textile (GFT) companies. With Cambodia's strong export ties to regions like the EU, Australia, Korea, Japan, and the US, the Royal Government of Cambodia has a strategic opportunity to support local companies in meeting sustainability and supply chain due diligence requirements and staying competitive.



# Executive Summary

This Sustainability Recommendations Paper (SRP) on **Sustainability Reporting in the Garment, Footwear and Travel Goods (GFT)** Sector aims to strengthen the foundations for environmental, social and governance (ESG) practices and data collection and management for reporting. This is increasingly important, as new HREDD legislation, mostly from Global North (buyer markets), is likely to set a backdrop for evolving sustainability reporting requirements in the future.

The EU is one of Cambodia's largest destination markets for GFT products, with an export value of **\$2.9 billion** destined for European retail customers in 2024 under all **EBA** (Everything But Arms) categories (textiles, footwear, bicycles, foodstuffs, milled rice, and other agricultural products). Therefore, recent EU legislation on sustainability reporting and human rights due diligence and the attendant requirements will have a significant impact on the GFT sector and its ability to continue to provide products of the quality needed for EU markets.

While an estimated **80%** of top **50** listed companies in **Asia-Pacific** adopt the **Global Reporting Initiative (GRI)** framework,<sup>1</sup> existing national laws and guidelines in Cambodia **do not include sustainability reporting, nor even environmental, social and governance reporting** apart from some requirements set out in the 2023 Environmental Code. This gap leaves a large burden on individual companies to build and procure the tools, systems and processes needed to fulfill buyer and other stakeholder requirements, resulting in confusion, increased costs, and potential loss of buyers in favor of producing countries with more advanced sustainability reporting in place.

Relevant studies agree that “Among a wide range of sustainability-related issues, climate change and human capital are the most prevalent issues in Asia and globally.”<sup>2</sup> Studies also show that investors look favorably on ESG reporting as a hallmark of transparency and accountability, meaning that countries with sustainability reporting will be able to more easily attract investment.

For Cambodia, we do not recommend creating new national sustainability reporting requirements from scratch, as this field is still evolving. Additional legislation could complicate compliance and increase costs for Cambodian export-oriented companies, potentially disadvantaging them in international markets. Instead, we suggest that the government develop incremental steps toward internationally accepted sustainability reporting standards. These steps would support local companies in meeting both domestic labor and environmental requirements and aligning with the data

needs of international buyers. To be effective, these foundations should draw from established international legislation and guiding principles.

By maintaining a strong national approach to regulating environmental, labor, and other business impacts, Cambodia can project a cohesive vision of responsible business while allowing companies, especially those in export sectors, the flexibility to adapt to international reporting standards.

For instance, the Royal Government of Cambodia and the GFT industry could establish non-legislative support for GFT companies, helping them implement new HREDD standards. They could also create a common framework for sustainability reporting tailored to Cambodian GFT companies, referencing global frameworks like the UNGPs, OECD Guidelines, ILO Conventions, and environmental standards. This could serve as a practical guide for Tier 1 factories that will be mandated to adhere to HREDD Standards, and could be a support to the non-exporting, Tier 2 and Tier 3 factories to initiate sustainability reporting. We encourage the Royal Government to seize this opportunity.

The United Nations Guiding Principles on Business and Human Rights (UNGPs) and the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector (OECD Guidelines) are well established and accepted and are the foundations on which much recent legislation on human rights and environmental due diligence (HREDD) is based.

This could be achieved by providing tools for data measurement, offering financial and technical support to help companies adopt sustainable practices, and improving management systems, especially for tracking environmental and social impacts. Progress in sustainability reporting will lead to better operations, enhanced environmental and social outcomes, and increased competitiveness for Cambodian businesses, particularly with EU clients who may pay a premium for reliable sustainability data. Government leadership will be crucial in aligning stakeholders to drive this transformation.

## Key Challenges

This paper highlights key challenges related to sustainability reporting in Cambodia's GFT sector:

- 1. Low awareness of sustainability principles,** including data management and transparency.

2. **Limited data collection and management systems** within factories.
3. **Lack of accessible tools for measuring environmental** metrics.
4. **Gaps in national legal requirements** for sustainability reporting, **missing alignment** with key frameworks.
5. **Limited access to resources and collaborative initiatives** to implement sustainability cost-effectively.
6. Growing **demands for data transparency and stricter supplier codes of conduct**, with uncertainty around how courts will interpret these regulations.
7. **Increased emphasis on grievance mechanisms**, which must be part of effective worker engagement programs, supported by the right incentives, KPIs, and external entities like trade unions.

## Summary Recommendations

These recommendations have been developed following extensive desk research, expert consultations, industry input, and feedback from two key events in the GFT sector: (1) The fifth public-private dialogue hosted by the Responsible Business Hub and GIZ FABRIC on 2 November 2023 at the Hyatt Regency, Phnom Penh, titled “Sustainability Reporting in 2023: Navigating Global Standards,” and (2) the workshop and closing event hosted by GIZ FABRIC, CGTI, and TAFTAC on 19 September 2024 at the CGTI/TAFTAC Auditorium, Phnom Penh, titled “Reporting on HREDD and Sustainability Requirements for International Buyers.

**We respectfully recommend:**

### For the Government of Cambodia

1. **Provide leadership and incentives for strong management systems**, focusing on human rights, resources, and environmental data management for export-oriented businesses.
2. **Address sustainability reporting gaps through government programs** offering financial and technical support.
3. **Align national laws with international standards** (e.g., ILO Conventions) and ensure fair, equal enforcement.
4. **Leverage trade partnerships** to secure financial, contractual, and reputational protections and mutual obligations

from client companies for Cambodian companies sharing transparent sustainability data.

### For Local GFT Companies

1. **Establish a cross-functional governance structure** to collect, analyze, and report ESG and sustainability data across the business.
2. **Engage with stakeholders** to understand sustainability issues and **create consultations** for identifying, mitigating, and addressing environmental and human rights impacts.
3. **Develop a sustainability reporting approach** that adds value for buyers, investors, and business operations, addressing climate change and human rights risks and facilitates your ability to negotiate for better pricing and terms.

### For Development Partners and International Organizations

1. **Offer capacity-building opportunities** focused on key competencies for sustainability reporting.
2. **Collaborate with the private sector**, especially associations, to guide suppliers and brands on HREDD.
3. **Convene the private sector** to identify barriers and opportunities for **collaboration or investment in shared resources**.

### For Buyers

1. **Lead by example**—ensure sustainability representation at the leadership and board levels, **embedding it throughout your operations**.
2. **Practice responsible sourcing**, including fair pricing that considers the cost of doing business and the costs and risks associated with data collection, management and reporting, and identifying, mitigating, remedying and reporting on risks to people in supplier operations.
3. **Create shared responsibility** with supply chain partners by setting reasonable KPIs and good incentives and providing financial and technical support to suppliers.

## For Civil Society and Trade Unions

1. **Engage in constructive dialogue** with industry to promote sustainability reporting.
2. **Provide capacity building**, especially for unions, worker representatives, and grievance mechanisms, tailored to HREDD and national contexts.

## The Way Forward: Future Proofing Cambodia's GFT Sector

Recent legislative changes and the growing number of countries enacting laws on environmental impact, human rights, and sustainability make it clear that the nature of global value chains, and their role in distancing consumers from the environmental and human impacts of the products they purchase is no longer acceptable in much of the Global North. Doing business in major markets like Europe, the US, Canada, South Korea, Japan, Australia, the UK, and China will soon require companies to recognize their negative impacts and systematically monitor and address them over time.

Unlike the compliance-driven approaches of the past, new regulations on sustainability and due diligence emphasize proactive risk identification, reliable data collection, and corrective actions, rather than simply creating policies and conducting training.

In Cambodia, human capital issues, such as labor rights and worker wellbeing, and environmental damage, like pollution and resource depletion, are recognized as financially material risks for companies in Cambodia's GFT sector. They can significantly impact a company's profitability, reputation, and long-term sustainability by leading to fines, production delays, loss of contracts, or damage to their reputation if not effectively managed.

A recent study by CamED Business School found that **74%** of people surveyed in Cambodia were aware of sustainability reporting but fewer than **30%** were prepared to do any reporting on environmental or social impacts of their business operations. The study concludes that the **lack of a national law** requiring sustainability reporting was a significant contributing factor to Cambodia being in such an early stage of non-financial and sustainability disclosure.<sup>3</sup> The survey also revealed that **68%** of people agreed that non-financial as well as financial information or sustainability reporting is beneficial, for the disclosing party's reputation and brand.<sup>4</sup>

**While no legal framework exists** in Cambodia for sustainability reporting, additional legislation is not the only strategic path forward for Cambodia and the GFT sector. In many countries, listed companies and other large employers are required to do some kind of sustainability reporting, either in line with international standards like GRI or ISSB, or bespoke standards set by the country or stock exchange they are listed on. By promoting international standards, countries make it easier for their businesses' sustainability efforts and achievements to be understood by outside investors and buyers.

**National governments** can also provide **important leadership and commitment on sustainability**, as well as **coordinate support and resources to help businesses** get up to speed, e.g. encouraging production with sustainability and marketing the additional value of products with sustainability data; providing funding opportunities and grant programs either directly or through carbon credit, green bonds or other methods; facilitating the convergence of standards and requirements; convening stakeholders to illuminate context specific issues and to model constructive engagement between business and other stakeholders; and capacity building for management teams and members would go a long way in ensuring that Cambodian companies are prepared to engage with their buyers who require sustainability data or reports. The alignment, involvement and support of the private sector, civil society, and development partners is also crucial for facilitating the clearest path for Cambodian GFT businesses to include sustainability reporting as part of their annual reports.



# 1. Introduction

## 1.1. Background of the Recommendation Paper

The **Garment, Footwear, and Travel Goods (GFT)** sector is of vital importance to the Cambodian economy. Following the integration of Cambodia into the global trade system, the industry has attracted significant foreign direct investment, particularly from China, and has been the **country's main employer and dominant export sector** for many years. This was enabled by preferential market access for Cambodia to main consumer markets, such as the US and the EU, based on Cambodia's status as a least-developed country (LDC). At the same time, with the support of the international community, notably the ILO's Better Factories Cambodia (BFC) program, Cambodia aims to ensure good working conditions in the sector that comply with national labor law as well as with the requirements of global buyers in the industry.

Over the years, these buyers – mostly international fashion brands – have intensified their social as well as ecological responsibility commitments, and various international standards and certifications have emerged to measure and verify their performance.

An even more recent trend is the emergence of international legal requirements for industrial players sourcing globally to ensure **human rights and environmental due diligence** across their supply chains. An example of such pieces of legislation is the German Supply Chain Act of 2021, which entered into force in 2023 and significantly expands due diligence requirements for German companies – and accordingly inspires cooperation concerning sustainability in supply chains around the world. On 24 May 2024, the European Parliament also voted to adopt the long-awaited EU Corporate Sustainability Due Diligence Directive (CSDDD), which will be transposed into legislation in all EU Member States and thus further extend the scope and coverage of due diligence requirements.

Against this background, the Cambodian Government launched the **GFT Sector Development Strategy** in 2022. The strategy outlines a comprehensive set of measures to support the sustainable transformation of the industry to remain competitive in the face of these recent developments.

Maintaining the industry's competitiveness is also a high priority as Cambodia is set to graduate from LDC status to become a lower middle-income country by the late 2020s, which means that trade preferences to markets will phase out in the medium term. To stay competitive, an outstanding sustainability performance should become the hallmark of GFT products “made in Cambodia,” as it would give buyers continued incentives to procure from Cambodia. This,

however, would require a concerted effort of all relevant stakeholders to make the industry's sustainable transformation a reality.

**German development cooperation** (via GIZ) has supported the sustainable development of the textile industry in Asia and specifically Cambodia since 2014 through various projects on regional, national, and global levels. Relevant cooperation activities in Cambodia are implemented by GIZ under the heading “FABRIC” (Fostering and Advancing Sustainable Business and Responsible Industrial Practices in the Clothing Industry in Asia), which constitutes an integrated implementation structure of various commissions of the German Federal Ministry of Economic Cooperation and Development (BMZ). To support the roll-out of the GFT Sector Development Strategy in Cambodia, GIZ-FABRIC is engaging in **extensive dialogue with public and private partners as well as with civil society** to develop concrete recommendations for action to realize the ambitious agenda. These efforts included a series of public-private dialogue events in 2023 and 2024 organized in cooperation with the Responsible Business Hub (RBH) Cambodia, which is embedded in the European Chamber of Commerce in Cambodia (EuroCham) and supported by Cambodia's Textile, Apparel Footwear and Travel Goods Association Cambodia (TAFTAC).

As a result of the continuous dialogue, GIZ-FABRIC, along with several partners and individual experts, have prepared **Sustainability Recommendation Papers (SRP) for the Cambodian GFT Sector** on the following topics:

- Prevention of Gender-Based Violence and Harassment (GBVH) at the Workplace
- Promoting the Inclusion of Persons with Disabilities in the GFT Sector
- Promoting Textile Waste Management and Recycling in the GFT Sector
- Responsible Wage Digitalization in the GFT Sector
- **Enhancing Sustainability Reporting in the GFT Sector (this report)**

This paper forms part of the series of five SRPs. It presents recommendations for various stakeholders relevant for responsible wage digitalization and aims to inspire multi-stakeholder cooperation around this important topic for GFT workers in Cambodia. The drafting process drew on dedicated interviews with, as well as inputs from various GFT stakeholder at related dialogue events in Cambodia.

## 1.2. Background of Sustainability Reporting in Cambodia's GFT Sector

Cambodia has no laws explicitly requiring sustainability reporting in general, although the laws governing listed companies enshrine the protection of stakeholder rights that must be respected by the company and board (including labor and social responsibility like environmental laws)<sup>5</sup> and require annual reporting on corporate social responsibility initiatives.<sup>6</sup>

Cambodia has an Environmental Law, along with various labor and environmental protections in place. However, there is no definitive legal regime for sustainability reporting. Reporting efforts are driven by buyer demand, group company leadership, or requirements from investors and stock exchanges. Given Cambodia's rich natural resources and the reliance of many low-income communities on waterways, forests, and traditional resource management, protecting air, water, soil, and preventing other negative impacts is becoming increasingly critical, especially in the face of more frequent severe weather events.



### Relevant Strategies of the Cambodian Government for Sustainability in the Cambodian GFT Sector

- **Cambodian Pentagonal Strategy (2023):** A national framework prioritizing sustainable development, including in the GFT sector, emphasizing environmental protection and competitiveness.
- **Cambodian GFT Sector Development Strategy 2022-2027:** Calls for the sustainable development of the GFT sector, aligning with global standards and promoting greener production practices.
- **Industrial Transformation Map for the Textile and Apparel Industry 2023-2027:** A roadmap to support the implementation of the Sector Development Strategy, with “Technology and Sustainability” as one of its four key levers.

Despite the absence of mandatory sustainability reporting requirements, the Cambodian GFT sector has embraced voluntary sustainability initiatives and reporting practices. Many factories are actively leveraging their sustainability performance as a competitive advantage in discussions with international buyers. The sector demonstrates strong participation in recognized sustainability frameworks, with a significant number of factories engaging in Better Factories

Cambodia, Higg Facility Environmental Module (FEM) assessments, and Zero Discharge of Hazardous Chemicals (ZDHC) processes to demonstrate their commitment to legal compliance and environmental stewardship. Additionally, the sector's commitment to sustainability is highlighted through the annual CSR Awards, jointly organized by TAFTAC and EuroCham, which recognize and promote best practices in corporate social responsibility within the industry.

## 2. Sustainability Reporting Requirements Globally: Voluntary to Mandatory

The widespread use of contractual arrangements and global supply chains has distanced businesses from the negative impacts of their production processes. This separation has also disconnected companies from the consequences of their operations, often creating incentives to shift production to countries with lower regulatory requirements and/or reduced costs of doing business.

The transformation of production across international borders has created both challenges and opportunities for workers and businesses, allowing different costs of labor and materials to create efficiencies in production. In the 1990s and early 2000s, trade agreements began incorporating increased labor and environmental protections to level the playing field in terms of standards, and to ensure protections where national regulations might be different or lack enforcement. Incidents like the tragedy at Rana Plaza in 2014, made many buyers and consumers question whether relying on various national laws, voluntary schemes and standards, and other CSR programs were sufficient to ensure the safety of workers and communities.

One common response to the lack of proactive protection in supply chains has been the use of voluntary schemes, certifications, and corporate social responsibility (CSR) programs to promote better business and environmental practices. These programs often include social and environmental audits or third-party verifications to ensure that facilities implement the promised protections. Some focus on worker wellbeing, while others address specific environmental risks, like greenhouse gas emissions. International standards organizations like ISO and BSCI have also entered this space with global standards that create certainty through detailed criteria universally applied. In some industries, certifications are intended to perform a similar function, showing that certified companies have achieved or demonstrated specific required policies, processes, or other outputs, although there are also criticisms of certification schemes. While these voluntary programs, standards and certifications have at times provided a simplified language with which to communicate about complex social and environmental issues with value chain partners and end customers, standards and certifications have also come under criticism for being insufficient for the purpose of ensuring that a product or supply chain meets generally recognized levels of sustainability. One key criticism that is particularly leveled at membership organizations and multi-stakeholder initiatives is that they often land at the lowest commonly accepted standard due to their reliance on member support, rather than pushing industries to achieve higher standards.

In addition to supplier-focused sustainability and labor or environmental standards, there are also voluntary sustainability reporting standards that companies use to measure and report on ESG for corporate and financial stakeholders, including Customer Data Platform (CDP), Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), European Financial Reporting Advisory Group (EFRAG), The Partnership for Carbon Accounting Financials (PCAF), International Organization for Standardization (ISO), World Business Council for Sustainable Development (WBCSD), Principles for Responsible Investment (PRI), Screen based trading system (SBTs), International Sustainability Standards Board (ISSB), Climate Disclosure Standards Board (CDSB), Equator Principles and SDGs, to name a few. These reporting standards are generally selected by investors or corporate leaders to align with their internal obligations but are often quite complex and difficult for suppliers to comply with.

In recent years, the limitations of voluntary approaches have become evident, with stories of worker exploitation and poor conditions affecting every retail-focused industry and in some cases being raised in litigation against multinational companies who may have been complicit in perpetuating these abuses. In response, governments and consumers in major importing countries have shifted toward holding multinational companies accountable for the impacts of their supply and operations. Current and proposed regulations in global markets addressing supply chain human rights and environmental impact fall into three categories: disclosure laws, product bans, and human rights due diligence laws. These laws require companies to report on their supply chains, enforce bans on products linked to egregious risks, and based on the United Nations Guiding Principles on Business and Human Rights, hold companies responsible for sourcing from partners who respect worker rights and environmental standards. While these laws are new and, in some cases, yet to be fully in force, the trend seems clear that responsibility for value chain impacts will come to rest with large companies in the EU, Japan, Korea and other major consuming markets. This has significantly increased the potential responsibility placed on individual businesses, and in turn, how these companies headquartered in major global markets interact with their supply chain partners.

## 2.1. Emerging Legal Regimes for Mandating Sustainability Reporting<sup>7</sup>

This section focuses on mandatory sustainability reporting and HREDD, as sustainability reporting data is largely derived from the HRDD process set out in the OECD Guidelines (for social issues) and from tools measuring environmental impact (for environmental). The bulk of legislation and guidelines about HREDD in global supply chains have been drafted and enacted after 2020, meaning that this regulatory approach is still largely untested and the law and practice around HREDD and its various iterations are still evolving.

### International

With each passing year, the legislative environment surrounding Human Rights and Environmental Due Diligence (HREDD), and Sustainability Reporting continue to evolve, particularly for major importing markets in the global North and East Asia. Many of these laws enacting HREDD are based on the UNGPs and OECD Guidelines, which recommend that businesses be proactive in identifying, mitigating, preventing, and remediating risks and negative impacts throughout their supply chains. While the scope, responsibilities and liabilities under these regulations differ from country to country, the general obligation to engage actively with one's Tier 1 suppliers on human rights and environmental risks has set the tone for what data companies are asking of their suppliers.

HREDD laws	Disclosure laws	Product bans
<ul style="list-style-type: none"> <li>Norwegian Transparency Act</li> <li>German Supply Chain Due Diligence Act</li> <li>US Section 1502 Conflict Minerals Rule</li> <li>EU Corporate Sustainability Due Diligence Directive</li> <li>EU Conflict Minerals Regulation</li> <li>France Duty of Vigilance Law</li> <li>Swiss Ordinance on Due Diligence Obligations and Transparency</li> <li>Netherlands Child Labor Due Diligence Law + Responsible and Sustainable International Business Act (pending)</li> <li>South Korea Human Rights and Environmental Protection for Sustainable Management of Companies (proposed 2022, pending)</li> <li>New York Fashion Act (officially introduced as Senate Bill A. 4333-A): Currently under consideration, with no enactment date yet</li> </ul>	<ul style="list-style-type: none"> <li>California Transparency in Supply Chains Act</li> <li>UK Modern Slavery Act</li> <li>Australia Modern Slavery Act</li> <li>EU Corporate Sustainability Reporting Directive</li> <li>Canadian Fighting Against Forced Labor and Child Labor in Supply Chains Act (2024)</li> <li>Swiss Code of Obligations</li> <li>China ESG disclosure requirements</li> </ul>	<ul style="list-style-type: none"> <li>USMCA Mexico Forced Labor Import Ban (2023)</li> <li>US Uyghur Forced Labor Prevention Act (UFLPA) (2022)</li> <li>US Section 307 of the Tariff Act of 1930</li> <li>US 2016 implementation of the US Trade Facilitation and Trade Enforcement Act (2016)</li> <li>Dutch Child Labor Law</li> <li>EU Forced Labor Ban (2023)</li> </ul>
	<ul style="list-style-type: none"> <li>UK Plastic Packaging Tax: Came into effect on April 1, 2022.</li> </ul>	



The German Supply Chain Due Diligence Act (LkSG), which passed in 2021 and came into effect in 2023, was in many ways the turning point that proved that global value chains were changing to incorporate corporate liability for supply chain abuses. As one of the first major consumer countries to enact HREDD legislation, the passage of this law and discussions of its enforcement and impact are also fueling similar discussions in other jurisdictions like the CSDDD for all of the EU. In Asia, the Japan Guidelines on Human Rights Due Diligence (HRDD), published on September 13, 2022, has been the most influential. In Japanese business culture, guidelines are as persuasive as law in terms of encouraging action, so this change has caused very quick effects among Japan headquartered companies and their supply chains. Both Germany and Japan have been particularly proactive in also using their political capital through the UN and other funding and initiatives to promote HREDD methods and responsible business practices training, as well as other trade facilitation, in their major supply chain partner countries.

Another influential legislative development that has supported an increased focus on sustainability reporting is the EU Green Deal. The EU's Green Deal suite of legislation is taking broad aim at corporate practices that might cause harm to people or the environment and is a leading force in the widespread requirement for sustainability reporting and HREDD. The CSDDD is expected to introduce legally binding obligations on large companies regarding the environmental and human rights impacts of their supply chain. The scope of the CSDDD is likely to include large non-EU companies that generate turnover in the EU, so it may affect large APAC businesses with operations in the EU. Existing EU regulations already impose supply chain due diligence obligations on businesses operating in specific industries, including:

- the EU Deforestation Regulation, which applies to businesses that place certain forest commodities on the EU market.
- the EU Batteries Regulation, which applies to manufacturers, producers, importers, and distributors of batteries for the EU market; and
- the EU Carbon Border Adjustment Mechanism, which applies to importers of iron and steel, cement, fertilizers, aluminum, electricity, and hydrogen in the EU.

In addition to this, the EU's proposed Forced Labour Regulation would prohibit the sale of any goods made with forced labour in the EU. This is likely to affect how any company selling goods in the EU would approach ESG due diligence and supply chain management. The list of legislation below is recently adopted or proposed regarding

some aspect of environmental or social impact and/or sustainability reporting:

- EU Corporate Sustainability Reporting Directive (CSRD): Adopted in December 2022, with reporting requirements starting in 2024.
- EU Corporate Sustainability Due Diligence Directive (CSDDD): Adopted in 2023, with compliance starting between 2025 and 2027.
- EU Deforestation Regulation (EUDR): Adopted in 2023.
- EU Eco-design for Sustainable Products Regulation: Expected to come into effect in 2024.
- EU Packaging and Packaging Waste Directive and Proposal: Updated in November 2022.
- EU Microplastics Regulation: Still under negotiation, potentially enacted around 2024.
- EU Product Environmental Footprint Guide: Introduced in 2019 as part of the EU's environmental framework.
- EU Textile Regulation: Still in draft form, expected to be finalized around 2024.
- EU Anti-Greenwashing Legislation: Still under development, with no final implementation date yet.

Anti-greenwashing legislation, as a subset of other environmental reporting requirements, is also coming into force or planned in South Korea, Australia, and Singapore, making accurate data collection and reporting on sustainability topics especially important to avoid liability in these jurisdictions.



## Singapore's Sustainability Regime: Comply or Explain

Like many countries in the region, Singapore has mandatory sustainability reporting for companies listed on the SGX (Singapore Stock Exchange). In 2016, SGX released the Sustainability Reporting Guide and provided that in the first year of implementation, companies should have at least the assessment of material ESG factors, policies and strategies to address the factors. Companies were then given up to 12 months from the financial year ending on or after December 31, 2017 to release their first sustainability report and future annual sustainability reports. Singapore also took a graduated approach to sector coverage—starting with those in key industries, namely (a) financial services; (b) agriculture, food and forest products; and (c) energy, for financial year 2023. From 2025, this report will also be mandatory for issuers in the materials and buildings industry and the transportation industry, in respect of their operations for financial year 2024. The “comply or explain” moniker refers to the fact that companies in the target industries will be presumed to fall within the regulations requiring sustainability reporting unless they can prove or justify otherwise, rather than the opposite.

<https://www.sgx.com/sustainable-finance/sustainability-reporting>

## Cambodia

Cambodia currently has some legal requirements for sustainability reporting for publicly listed companies. The country is also progressively updating its labor and environmental laws to strengthen protections for both workers and the environment. Key laws and strategies include:

- Cambodian Labour Law (1997), and Subsequent 3 Amendments: Governs employment conditions, worker rights, and safety, including in the garment industry.
- Law on Environmental Protection and Natural Resource Management (1996): Cambodia's foundational environmental law, superseded by the Environmental and Natural Resources Code in 2024.<sup>8</sup>
- Law on Biosafety (2008): Regulated the safe handling of biological resources, superseded by the Environmental and Natural Resources Code in 2024.
- Clean Air Plan (2021): Targets industrial air pollution, including in the garment sector.
- Environmental and Natural Resources Code (2023): The Environmental and Natural Resources Code (the “Environmental Code”) was adopted on 29 June 2023 by Royal Kram N<sup>o</sup> NS/RKM/0623/007. A comprehensive law focuses on conservation, waste management, and sustainable development. It replaced several older laws and began implementation in 2024.
- Cambodian GFT Sector Development Strategy 2022-2027: Calls for the sustainable development of the GFT sector, aligning with global standards and promoting greener production practices.
- Industrial Transformation Map for the Textile and Apparel Industry 2023-2027: A roadmap to support the

implementation of the Sector Development Strategy, with “Technology and Sustainability” as one of its four key levers.

- Cambodian Pentagonal Strategy (2023): A national framework prioritizing sustainable development, including in the GFT sector, emphasizing environmental protection and competitiveness.

Cambodia also has a third-party grievance mechanism, which could be helpful for encouraging brands looking to fulfil their legal requirements for a direct line to workers. The Arbitration Council is an independent, national institution created by the Labour Law of Cambodia with quasi-judicial authority over certain employment-related disputes. This arbitration process brings together government, employers, and trade unions to resolve collective labor disputes.

Indirectly linked, but of note, Cambodia has also been investing in climate adaptation and mitigation through a number of energy and infrastructure projects. The Cambodia Power Development Master Plan 2022-2040 has committed to increasing renewable energy, aiming for 70% renewable by 2030, and is preserving and reviving forest cover to meet their goal of 60% forest cover by 2050.

## 2.2. Private Sector Initiatives in Cambodia

The landscape of national private sector initiatives that promote or support sustainability reporting is also growing. Below, are details on some of the major private sector initiatives related to sustainability, which have set the foundations for Cambodian GFT companies to understand, collect data on, and report on, social and environmental

issues. The following list is non-exhaustive, and neither in order of importance nor chronological:

- EuroCham and AmCham CSR Awards: These annual awards are organized (separately) by the European Chamber of Commerce in Cambodia (EuroCham) and the American Chamber of Commerce in Cambodia (AmCham). Both chambers of commerce recognize cross-sectoral corporate social responsibility efforts by member companies operating in Cambodia. The European Union was a direct supporter of EuroCham's first CSR Awards via the ICI+ SEBSEAM (Support for European Businesses in Southeast Asian Markets) Program. CSR is a voluntary effort, and awards and recognition like these two CSR Awards encourage and motivate companies to do more in the corporate social responsibility space.
- Cambodia GFT Responsible Business Awards and ESG Contest: This is a GFT sector-specific competition rewarding excellence in responsible business practices and environmental, social, and governance (ESG) initiatives in the garment, footwear, and textile (GFT) sector. The awards are hosted by EuroCham and TAFTAC and organized by the Responsible Business Hub (RBH).
- Brand-Driven Environmental and Social Commitments and Reporting: In the apparel industry, there are more than eight widely known company-backed responsible business initiatives that encourage their corporate members to adopt higher standards for ethical and responsible practices—amfori (formerly the Business Social Compliance Initiative or BSCI); the Dutch Agreement on Sustainable Garments and Textiles (AGT); the Fair Labor Association (FLA); the Fair Wear Foundation (FWF); the German Partnership for Sustainable Textiles (PST); the Sustainable Apparel Coalition (SAC, now Cascale, which also manages the Higg Index); Task Force on Climate-related Financial Disclosures (TCFD) recommendations; and the UK Ethical Trading Initiative (ETI). Each of these initiatives is comprised of dozens of apparel and footwear companies, at times with overlapping memberships. Brands use these industry-wide programs and membership associations to establish common approaches and requirements, reducing the burden on suppliers, as well as ensuring alignment across different industry actors. Cascale and ZDHC (Zero Discharge Hazardous Chemicals) have sustainability reporting formats that are used widely in Cambodia and also help to streamline and simplify reporting requests (see details in box below).

#### Common Sustainability Reporting Formats: Higg and ZDHC

- SAC (or Cascale) developed the Higg suite of tools containing the Higg FEM (Facility Environmental Module) and the FSLM (Facility Social and Labor Module) designed to measure the environmental and social performance of the companies. A score can be established by answering questions per environmental topic (water, energy, waste, chemicals, etc). The FEM has been designed to guide companies to a better performance by first raising awareness and data collection, secondly on monitoring and analyzing environmental performance and thirdly by reducing environmental impact. When reporting on FEM the companies also must demonstrate annually an improvement in their environmental performance by increasing their FEM score.
  - ZDHC developed a number of tools to which companies can report their performance on chemicals (via an InCheck report), wastewater (ClearStream report) and their chemical management system (Supplier to Zero). Based on REACH regulations ZDHC developed the (M)RSL (manufacturing restricted substance list) which is the industry standard on restricted chemicals to which companies must comply with. Testing the presence of these chemicals in the wastewater is the most challenging issue as not many laboratories are accredited by ZDHC to measure all listed chemicals for ClearStream reporting.
- Circular and Waste Reduction Initiatives: In collaboration with Global Fashion Agenda (GFA), TAFTAC and GIZ implemented the textile waste circularity project initiative in December 2023. The initiative has cooperated with 11 fashion brands, two recyclers and 21 factories, aiming to improve the textile waste disposal and textile waste sorting and recycling in Cambodia. The main interventions included strengthening the waste management system including improving waste sorting, traceability, and recycling.
  - TAFTAC / CGTI Training Series: The Cambodian Garment Training Institute (CGTI) conducted several trainings in 2023 and 2024 on Human Rights and Environmental Due Diligence (HREDD) with focus on environmental data

management and reporting as well as energy management and energy efficiency. These trainings were part of the Model Green Factory Program, and the Advanced Diploma Program initiated and implemented by CGTI and supported by GIZ FABRIC. The trainings were delivered to 45 factories in Cambodia, building their capacity to comply with new sustainability legislation, environmental sustainability reporting requirements and sustainable energy management standards and were complemented by a Training of Trainers (ToT) program for CGTI trainers.

- **TAFTAC and the STAR Network:** TAFTAC has been a member of the Sustainable Textiles of the Asian Region (STAR) Network since 2016 and, as of 2023, serves as the Secretariat headquarters. The STAR Network is a regional platform for sharing best practices in sustainability and Human Rights and Environmental Due Diligence (HREDD), including initiatives such as sustainability reporting.

### 2.3. Development Partner and Civil Society Initiatives

Development partners, including UN agencies, donor funds, foundations, and others, are increasingly using training and sustainability initiatives to reduce ESG risks in their

portfolios. Civil society, including trade unions, also reassessed their service delivery during COVID-19 lockdowns and quickly adapted to Human Rights and Environmental Due Diligence (HREDD) as a new business standard. Below is a non-exhaustive list of major sustainability reporting initiatives supported by development partners and civil society organizations (CSOs):

- **BFC Audit and Advisory Programs:** Better Work’s program in Cambodia, Better Factories Cambodia, started over two decades ago and performs two levels of supervision and support for Cambodian GFT factories looking to comply with their buyers’ social impact requirements. The basic level includes site visits and basic checks on management systems and policies in place. The second level includes individualized advisory support and coaching from labor experts to help factory management understand worker rights and how to ensure they are respected in the workplace in line with international law requirements and buyer expectations. BFC also focuses on reducing emissions and raising climate awareness within the garment sector. The BFC 2023-2027 strategy also emphasizes responsible business conduct and aligning with global sustainability standards.
- **BFC Transparency Database:** Better Factories Cambodia (BFC) promotes sustainability reporting through its Transparency Database, which publicly tracks factory compliance with labor and environmental standards.

#### ABOUT BETTER FACTORIES CAMBODIA'S TRANSPARENCY DATABASE

BFC is committed to supporting the competitiveness of the Cambodian garment industry and helping to build the reputation of Cambodia as an ethical sourcing destination.

**BF's return to its earlier practice of publicly disclosing factory-specific compliance information has these objectives.**

**1** Build the Cambodian garment industry's reputation for decent working conditions and keep pace with competing industries where disclosure of ILO factory compliance data will soon be the norm.

**3** Spur significant changes in chronically non-compliant factories.

**2** Bolster enforcement efforts by the Royal Government of Cambodia.

**4** Accelerate improvements in working conditions on critical issues across the industry.

- GIZ FABRIC: GIZ has programs at national and regional levels to support sustainable production of textiles and garments, including a partnership with Cambodia's Ministry of Economy and Finance (MEF) which promotes public-private dialogue social and environmental sustainability in the GFT sector (incl. the ones that informed this paper), as well as relevant capacity development of and knowledge-sharing among key stakeholders.
- The 2021 Publication: Business and Human Rights in Cambodia: A Compendium of Instruments and Materials, by the Raoul Wallenberg Institute: This publication provides a vital resource for educators and researchers. It maps Cambodia's sustainability legislation and, in Part II, details sustainability reporting mechanisms relevant to Cambodian businesses. The publication was possible thanks to the Swedish International Development Cooperation Agency, Sida. It offers comprehensive insights to facilitate teaching, research, and understanding of business responsibilities toward human rights in Cambodia.
- GIZ and TAFTAC HREDD Guide for Cambodian GFT Manufacturers: With support from GIZ FABRIC, TAFTAC developed a practical guide on Human Rights and Environmental Due Diligence (HREDD) for Cambodian garment, footwear, and travel goods (GFT) manufacturers. The guide provides clear steps for implementing HREDD in factories and preparing for rising international supply chain requirements. It was officially launched on October 22, 2024, at a Human Resources forum attended by over 60 participants, including factories, international brands, CSOs, and development partners. This guide is also used by RBH Cambodia and CGTI to enhance factory capacities. Additionally, with GIZ support, TAFTAC and a consultant provided training to multipliers—key representatives from TAFTAC, CGTI, RBH Cambodia, and Better Factories Cambodia (BFC)—who now serve as peer educators to assist factories with HREDD implementation.
- World Bank and IMF Training on IFRS: The World Bank Group and International Monetary Fund (IMF) hosted training on the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards on June 4, 2024. This online, invitation-only event was facilitated by experts from the United Nations Sustainable Stock Exchanges (UN SSE), the IFRS Foundation, and the International Finance Corporation (IFC). The training focused on the new IFRS S1 and S2 standards related to sustainability and climate-related financial disclosures.
- Asia Garment Hub: The Asia Garment Hub is a joint initiative of GIZ's regional project FABRIC and the ILO's Decent Work in Garment Supply Chains Asia project that brings together high-quality resources from leading industry organizations and experts, manufacturers, brands, worker and employer organizations, civil society, and multi-stakeholder initiatives on an online platform that is freely accessible. The Hub publishes country briefings, as well as studies, guidance, and other publications to help spread awareness of sustainability initiatives and to bring stakeholders together to support collaboration and good practices.
- Asian Development Bank Funding for Climate Mitigation and Adaptation: As part of its long-term support for the development of the Cambodian economy, the ADB provides significant funding for economic diversification, human development, and climate change mitigation and adaptation. This includes supporting major infrastructure projects for electricity and waste that will enable businesses to reduce their environmental impact.

## 2.4. Good Practices from Other Countries

Sustainability reporting beyond financial metrics is a new field, with best practices still emerging. However, insights from other industries and countries reveal valuable approaches. Key takeaways include: (1) collective action, including self-regulated organizations, is essential for suppliers to reduce costs and establish consistent tools and methods; (2) sustainability reporting is becoming globally essential, despite current regional differences in requirements; (3) companies must address both positive and negative impacts across their operations and supply chains.

- Accord and Alliance (Bangladesh/Pakistan): These initiatives established industry-wide and national-level grievance mechanisms to improve worker safety and rights, particularly in the textile sector. The Accord, initially in Bangladesh and later expanded to Pakistan, focuses on fire and building safety, while the Alliance emphasizes similar standards. Because the Accord and Alliance bring together local government, trade unions, suppliers and buyers, there is a holistic approach and a single point of contact for workers that helps to unify and align all actors who are members.<sup>9</sup>
- KPMG Survey of Sustainability Reporting 2022: The survey highlighted that twelve Asian jurisdictions have developed or are developing sustainability-related disclosure

frameworks for companies. Most of these jurisdictions encourage the use of international standards, with two creating their own sustainability standards boards. This reflects the growing regional commitment to transparent and responsible business practices across many jurisdictions in Asia.<sup>10</sup>

- ♦ Malaysia, Japan, Thailand, Japan, Singapore, South Korea, and Taiwan report over 94% of top 100 companies reporting on sustainability, in large part driven by listing requirements on local stock exchanges.<sup>11</sup>
- ♦ China has seen an increase in ESG and sustainability reporting resulting from the Chinese government’s focus on carbon neutrality commitments and the listing requirements of mainland China and HK stock exchanges.
- ♦ Thailand “One Report” requirement for companies puts more focus on sustainability and ESG disclosure.<sup>12</sup>
- Partnership for Cleaner Textiles (Bangladesh): this initiative supports the entire textile value chain – spinning, weaving, wet processing and garment factories in adopting Cleaner Production (CP) practices and engages with brands, technology suppliers, industrial associations, financial institutions, government to bring about systemic and positive environmental change for the Bangladesh textile sector and contribute to the sector’s long-term competitiveness and environmental sustainability.<sup>13</sup>
- The Ethiopian Horticulture Producer Exporters Association Code of Practice: this industry code, guided by external expertise provided through the Ethiopia Netherlands Horticulture Partnership Program, is designed to align the industry around sustainable practices and encourage continuous improvement, increasing their competitiveness in the international market and providing standards and guidelines for different levels of achievement while maintaining the flexibility to respond to changing conditions through self-regulation.<sup>14</sup>
- An Apparel Supplier’s Guide to Key Sustainability Legislation in the EU, US and UK<sup>15</sup>: this publication, procured by a group of manufacturing companies and also supported by Transformers Foundation and GIZ FABRIC, across production tiers and locations facing many of the same challenges, who wanted to create a

resource from a supplier perspective on sustainability reporting and other key legislation and particularly on how such legislation might impact suppliers in ways that are not usually highlighted when discussing the implications of the new laws from the buyers’ perspective. Bringing suppliers together to share resources, to advocate for mutual obligations, and to share knowledge and experiences is a valuable model that is worth replicating.



## 3. Key Findings from Stakeholder Consultations

### 3.1. Stakeholder Consultations on Sustainability Reporting

Public-private dialogue on sustainability reporting in Cambodia's GFT sector is ongoing, with various stakeholders contributing to the discussion. A key milestone was the EuroCham Responsible Business Hub (RBH) dialogue event on "Sustainability Reporting in 2023: Navigating Global Standards," which brought together industry stakeholders to discuss global sustainability reporting requirements. This event outlined the key sources of sustainability reporting requirements – including national and regional regulations like the EU Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), guidelines by stock exchanges and regulatory bodies like the US SEC, and voluntary standards such as the updated IFRS Sustainability Disclosure Standards from the International Sustainability Standards Board (ISSB) – and generated many of the recommendations that have been incorporated into this paper, particularly regarding the harmonization of reporting requirements from national and regional regulations, stock exchanges, and voluntary standards.

In September 2024, FABRIC Cambodia and CGTI organized a sustainability reporting training for students of CGTI's Advanced Environmental Diploma. The event also provided a platform for dialogue with industry representatives, who shared insights about their current reporting practices. Participating factories indicated they most frequently report on:

- Brand standards and Codes of Conduct
- Cambodian government requirements (Ministry of Labor, Ministry of Environment)
- Industrial hygiene certificate
- ISO45001 and 14001
- Higg FEM
- Recycled Claim Standard (RCS)
- Global Recycled Standard (GRS)
- Lifetime Carbon Assessments (LCA)
- ITE Base Code

These factories also participate in Better Factories Cambodia (BFC) and other industry certifications, standards, and programs, with reporting requirements ranging from monthly to annually. They cite data collection, limited time and resources, third-party audits, and uncertainty about data requirements as major obstacles to effective sustainability reporting. While stakeholders recognize substantial improvements in Cambodia's GFT sector over the past decade, they note a lack of coherence in sustainability reporting due to numerous voluntary standards and potential individual regulations from various buyer markets, and even from each of the 27 EU member states. The recommendations entailed in this paper address these concerns.

### 3.2. Major Findings

The combination of desk research<sup>16</sup> and the ongoing stakeholder dialogue in Cambodia has led to the identification of the following key challenges with regard to sustainability reporting in Cambodia:

**1. Lack of Specific Policies, Poor Government Engagement and Audit Fatigue:** The absence of tailored national policies on sustainability reporting and limited government involvement poses a significant hurdle for Cambodian businesses in preparing for HREDD reporting standards, as there are many different social and environmental sustainability frameworks and reporting approaches in use globally and one factory might have buyers that all use different standards, resulting in huge amounts of paperwork and gap analyses to compare each of the requested reports and ensure that the right data is in the right place. Government technical experts, to the extent they are in the relevant ministries, are not tasked with supporting industry in sustainability reporting, nor on creating a taskforce or other concerted effort to address some of the challenges industry is facing.

**2. Change in Mindset and Practices Needed to Embrace the Critical Role of Transparency:** Transparency stands as a cornerstone in sustainability reporting in supply chains, both for the functional act of sharing data and the subsequent use of a facility's data in a buyer's reports that may be public or otherwise scrutinized. Ensuring that businesses are forthcoming and candid in their reporting practices is paramount for meeting international standards and fostering trust among stakeholders, but there are risks associated with transparency about human rights and environmental issues and incidents that are not sufficiently provided for.

**3. Limited Staff Education:** Mere awareness at the management level is insufficient to satisfy the new legislative requirements in sustainability reporting. The complexity of data collection will require comprehensive training and widespread awareness campaigns across all levels of production to install a culture of compliance and embedded awareness of risks and issues that should be included in reports to buyers.

**4. Mutual Obligations / Trust in Ensuring Data Collection:** The inherent power dynamics within buyer-supplier relationships can lead to apprehensions about risk and waste disclosure, and whether a supplier might have reduced volumes or other retaliation or punishment for perceived poor performance. The core of an effective HREDD system and sustainability reporting is openness and a certain tolerance for failure as well as equally strong commitment to continuous improvement. Building trust through transparent communication channels and mutual understanding is essential in overcoming this, as well as for solving problems such as how to allocate and recuperate the increased cost of doing business with sustainability data collection.<sup>17</sup>

**5. Sustainability Reporting in GFT Company Operations is not yet Mainstreamed.** Companies in Cambodia are still new to measuring and monitoring environmental and social data, and many lack the systemic foundations and management systems to support this work. While some managers are being trained on HREDD and related topics, this needs to be a topic that every manager in a factory has awareness of for the identification, mitigation, and remedy to work properly.

**6. Stakeholders (Unions, Development Partners, Ministries etc.) are Often not Organized for Cooperation.** Addressing human rights and environmental impact of GFT factories will require a holistic and constructive approach. Historic tension between industry and government on one side, and trade unions and civil society on the other, means that all sides will have to find ways of working together.

**7. Vulnerability of Climate and People in Cambodia Create Risk and Urgency.** The stakes are high for creating an effective sustainability reporting system, but also one that supports communities, workers, other vulnerable people, and the environment from continued harm. Cambodia as a low-income country with high flood and drought risks stands to gain a lot from businesses adopting more sustainable practices and could become a geography that brands stay away from because declining conditions create reputational risk.

These recommendations are based on analysis of current legislation, industry programs, the international landscape, consultations with brands, suppliers, CSOs, NGOs, international donors, and desk research on implementing socially sustainable practices in complex contexts. Our Recommendations address broad strategic directions for each stakeholder, while Action Steps provide specific actions to help the Cambodian GFT sector and the Royal Government of Cambodia (RCG) build a compliant, profitable, and socially responsible industry.

**Key Takeaway: Continued Dialogue is Needed to Find the Most Effective Ways to Support Business to Meet New Sustainability Reporting Requirements.**





## 4. Recommendations and Next Steps

### 4.1. For Government

#### Forward-Looking Recommendations

**Increase Government Collaboration and Policy Formation Is Needed. This can Overcome the Lack of Specific Policies that Currently Lead to Private Sector Inertia and Audit Fatigue.** Through active engagement with the private sector and CSOs, the government is an important partner for developing specific policies that align with international reporting standards, and we recommend that they focus on the UNGPs, and OECD guidelines, as other national regulations and private standards may change and it will be difficult to coordinate effectively. By creating tiered sustainability reporting obligations for small, medium and large employers, and stepping up obligations over time, the RGC may be able to avoid some of the pitfalls that other lawmakers have experienced in enacting a huge suite of obligations at once, and to account for and include companies of different sizes and industries. International organizations such as UNEP (for environmental) and UNDP (for general business and human rights, specifically National Action Plan) may also provide support and policy advice aligned with international standards and practice.

**Government Funding and Programs to Stimulate Innovation and to Ensure Equity are Needed.** Having considered a set of government initiatives designed to stimulate the adoption of advanced technological solutions for augmenting internal data collection processes within factories, be it specific tools for measuring, for example, wastewater measurements, or tools and systems, like a comprehensive payroll system and hours tracking for workers. The Government can also help to address inequitable impacts of sustainable development on communities and businesses to provide new green employment and other opportunities.

#### Action Steps

##### Coordinate and Convene on Industry-Wide Issues

While safety and environmental issues can arise, the government is uniquely positioned to address the root causes of human rights and environmental impacts. By engaging with systemic and structural issues through coordination and government-led corrective actions, many sustainability challenges that are common across industries can be managed more effectively.

##### Establish Protections for Safe Transparency

The government should implement data privacy measures to

protect supply chain information. These protections would allow external buyers to meet sustainability and due diligence requirements without placing undue liability on local businesses and vulnerable populations that comply with buyers' standards.

##### Create a National Worker Complaints Mechanism

Establish a centralized complaints line for workers, managed collaboratively by brands, government, civil society organizations (CSOs), trade unions, and local companies. This mechanism would meet requirements under EU HREDD laws, providing a shared, effective resource for workers. The Arbitration Council offers a strong foundation for such a system, though additional brand support may be necessary to ensure regulatory compliance.

##### Facilitate Pre-Competitive Collaboration and Support Local Companies in Their Sustainability Efforts

Encourage collaboration by creating a forum where suppliers can share resources and experiences, helping them comply with new cost-effective regulations. Encourage companies to set ambitious sustainability goals and address issues like shared responsibility with brands. Allocate resources to support export-oriented businesses in adopting tools and systems for compliance with sustainability laws.

##### Strengthening National Legislation on Social and Environmental Issues

Review and enforce key legislation related to environmental, social, and governance (ESG) matters, such as working hours and greenhouse gas (GHG) emissions. For instance, consider banning the most hazardous chemicals in production to improve health and safety standards.

##### De-Risk Investments in Sustainability through Infrastructure and Scalable Models

Develop infrastructure that supports waste measurement and environmental impact tracking in urban planning, demonstrating the significant impact that government initiatives can have. A "green city" model can help make sustainability achievable at scale.

##### Incentivize Innovation and Leadership in Sustainability

Encourage new ideas, tools, and solutions to make sustainability reporting accessible for the GFT sector. By rewarding innovation, the government can accelerate the industry's progress towards sustainable practices, benefiting both businesses and the environment.

## 4.2. For Private Sector

### Buyers / Brands

#### Forward-Looking Recommendations

##### **Create Long-Term Relationships Where Trust and Accountability Can Be Built.**

Brands can provide active support for factories to implement new management systems and technologies to better manage and elaborate data.

##### **Buyers Need to Understand Their Suppliers' Capabilities and Contract and Pay Accordingly.**

Purchasing practices need to be responsible and meet international standards, while working with suppliers' real operations and costs to ensure a fair agreement.

##### **Begin to Prepare Tools, Support, and Financing for Supply Chain Issues.**

This may include paying for supplier training on sustainability reporting, addressing risk issues like replacing a wood-burning boiler, or purchasing tools for managing environmental and social data. It might also mean finding funding for technical assistance, a remediation reserve, and setting higher prices to reflect the complexities of transparent data reporting.

##### **Create Opportunities for Leadership and Collaboration Through Supplier Forums.**

Supply chain actors can accelerate adoption, innovation, and good practices by sharing successes and challenges through these forums.

##### **Suppliers and Brands Can Identify Specific Individuals Responsible for Sustainability Tasks.**

Having dedicated staff or departments handling socially sustainable practices leads to better implementation than those without specialized staff.

#### Action Steps

##### **Share the Importance of Sustainability Reporting.**

Discuss with suppliers what sustainability reporting means to you (as a brand) and how you use it in your business, so that they can see how to use it in theirs and why it is important. For example, how do your shareholders hold you accountable for your environmental impacts? How does this impact your bottom line?

##### **Ensure Your Suppliers Embed Sustainability and Reporting Concepts Into Their Daily Operations, and Check in Frequently.**

Ensure consistency regarding social and environmental reporting requirements and check in frequently that there is real adoption and not simply decoupling.<sup>18</sup>

##### **Foster an Environment Where Honesty and Transparency are More Important Than Results.**

This can also open the possibility of normative pressure to comply with social and environmental sustainability strategies building through greater education and training of second-generation factory owners. Younger generations may have a different view of the importance of social and environmental impact, as well as seeing the positive knock-on effects of enhanced sustainability reporting practices for attracting and retaining buyers and building the company's reputation.

##### **Training Internal Teams Before Training Supplier Teams.**

Brands should train their own teams in sustainability reporting and how to support suppliers, as well as providing training to supplier management teams on sustainability reporting and how it cuts across finance, human resources, operations, compliance, and other functions.

### Suppliers

#### Forward-Looking Recommendations

##### **Suppliers Should Communicate Regularly and Openly with Buyers About How They Plan to Approach the HREDD Process.**

Suppliers should communicate what their challenges and apprehensions are to relevant stakeholders (via mechanisms such as their local manufacturing association, via regional bodies such as the STAR Network, and to local level representatives of buyer markets), and how the industry is doing with the new HREDD regulation.

##### **Embed Social and Environment Awareness Throughout All Operational Departments.**

In time, expand such programs to hold consultations with others and the community. Suppliers should begin to incorporate sustainability reporting in their KPIs for key jobs, allowing time to address any issues with deployment or working conditions that they may not want brands to know about. Engage legal, HR, sourcing/procurement, and other operational functions in the new reporting structure.

### **Develop Collaborative Relationships with Civil Society and Trade Unions.**

Suppliers can increase the legitimacy of their sustainability reporting efforts through genuine collaboration with stakeholders, particularly civil society, and making these partnerships part of the implementation process.

#### **Action Steps**

### **Suppliers Should Not Wait for Buyers to Demand Sustainability Reporting.**

Begin now and overcome challenges. Through the process of analyzing and reporting on sustainability issues, operational risks and opportunities that had previously been overlooked may become clearer. By embedding sustainability reporting across your operations, you may also identify where additional support is needed to address risks and issues, with potential financial and technical assistance from government, buyers, development partners, and civil society.

**Suppliers Can Educate Their Management Teams About Reporting Requirements** and provide resources to build and reinforce management systems that collect and analyze relevant data.

#### **Industry Organizations**

#### **Forward-Looking Recommendations**

### **Support Convergence or Selection of a Single Standard.**

Confusion is a big part of why some businesses won't be able to legally comply with the law. Where possible, agree a common standard / framework across buyers, including codes of conduct. Industry alignment is a condition for real impact on workers and environment.

### **Think Creatively About How to Align with Suppliers.**

Advocate on behalf of suppliers and industry for the consolidation of requirements and common standards to brands + buyers and to keep workers safer.

**Go Beyond Audits.** While some sustainability reporting legislation (and the underlying sustainability standards) may require "assurance" (audit), support continuous processes and suppliers using audits just to check that they have all the pieces in the right place. Reduce reliance on multi-stakeholder initiatives and audits for social compliance, particularly for process-rights violations (e.g., freedom of expression).<sup>19</sup>

### **Leadership and Innovation Should be Encouraged.**

Recognize and reward social sustainability leadership in terms of being proactive and striving for the continuous development of innovative implementation tools and procedures at the factory, the government and civil society.

## **4.3. For Development Partners and Civil Society**

#### **Forward-Looking Recommendations**

### **Make Sustainability Reporting Accessible.**

Help bring increased access to training on sustainability reporting to local businesses and support with follow-up. The Business and Human Rights in Cambodia: A Compendium of Instruments and Materials by the Raoul Wallenberg Institute, provides an excellent starting point for such trainings<sup>20</sup>.

### **Support Tools and Systems to Help with Data.**

Support the creation and dissemination of new management systems and technologies to better collect and analyze sustainability data.

### **Be a Bridge and Strengthen Relationships.**

Foster trust and collaboration between buyers and suppliers, emphasizing transparent communication and shared responsibilities in data collection.

### **Convene Organizations and Resources to Make Collaboration and Remedy Easier.**

Developing an inter-organizational collaborative approach can help to develop social sustainability implementation capabilities. This includes, for example, communicating with private sectors about the risk profile of the sector, and seeking to work constructively as new human rights and environmental risk indicators are created and developed, to show suppliers and brands how to incorporate awareness of these issues into their sustainability reporting and operations.

### **Keep Local Context in Mind.**

Engage with buyers and manufacturers and have a plan in place to discuss how these companies can incorporate context-specific indicators into their HREDD that will help them more effectively prevent, mitigate, and remediate.

## 5. Opportunities for Companies

Though these are not recommendations, there are opportunities for both brands and suppliers that take a proactive approach to sustainability reporting:

- Companies that understand overlapping disclosure topics can find efficiencies in their reporting processes.
- Early adopters of new sustainability regulations can develop disclosure processes before rules are effective in their jurisdictions, mitigating the risks of non-delivery, and preparing for independent assurance.
- Companies that harness regulatory interoperability can enjoy an improved reputation among stakeholders, increasing their access to capital from diverse investors who want transparent and comprehensive sustainability data on investee companies.
- Companies that effectively report against several regulations will be favorably benchmarked and evaluated against their peers.
- As the EU CSRD represents the most comprehensive sustainability reporting framework to date, ambitious organizations beyond its scope see CSRD as a way to win clients and to innovate.



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7. This list is not comprehensive, in fact, there are over 60 proposed and effective laws and directives which are or could be related to sustainability and sustainability reporting, plus legislation in jurisdictions other than the EU, UK and US.
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9. Another potential point of learning from this example: Bangladesh had prior to 2014 taken a government-run approach to worker safety and environmental standards and enforcement. However, in practice these standards and their enforcement were seen as highly corrupt which eroded both confidence in the government's ability to regulate the sector, and in the quality of the certifications/standards.
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