

Environmental Social Governance (ESG) Adoption among SMEs: Trends, Challenges and Insights from Cambodian Agro Processing SMEs.

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Abstract

Environmental Social and Governance (ESG) has become an important business consideration in the global supply chain. With the world now switching towards mandatory ESG practices, Cambodia's firms are expecting a new wave of challenges to navigate if they are to sustainably grow and integrate themselves in the increasingly more competitive global supply chains. The Small and Medium-Sized Enterprises (SMEs) sector, a key component of the country's economy, will need to adjust its business models to align with ESG considerations. However, there is currently a substantial knowledge gap concerning the level and forms of ESG practices, drivers, and challenges associated with ESG adoption among these SMEs. This study, through a self-completion online survey and in-depth interviews with owners and key informants, including SMEs associations, organisations concerned with ESG and inclusive business, relevant government ministries, banking association, and impact venture aims to fill these knowledge gaps. The research discusses relevant influencing factors and suggests key considerations for future interventions. The literature indicates that while ESG performance is increasingly relevant for SMEs, Cambodia's SMEs face significant challenges in adopting ESG practices. These hindering factors include the unclear regulatory framework, financial limitations, lack of awareness, absence of suitable ESG frameworks, and limited support systems. The study identifies factors influencing ESG adoption, such as heightened regulations, supply chain pressure, access to finance, and business advantages. The report finishes with a concluding recommendation for policy and program actions to help SMEs implement ESG practices and reporting.

1. Introduction

The integration of environmental, social, governance (ESG) considerations is increasingly recognized as a critical component within the global business landscape and the sustainable development framework. Recent academic investigations have demonstrated positive correlations between ESG performance and enhanced financial outcomes, as well as an elevated capacity for innovation within firms (IFC, 2021; Pulino et al., 2022; Lian et al., 2023). ESG practices have helped businesses to align their corporate objectives with the UN's Sustainable Development Goals (SDGs) (Sadiq et al., 2023). The strategic role of ESG in managing business risks, ensuring compliance with both local and international regulatory standards, maintaining investor confidence, and generating corporate value have become more relevance. Consequently, there is a discernible global shift from traditional voluntary corporate social responsibility practices towards a more rigorous, mandatory ESG framework.

Not only large firms are increasingly integrating ESG practices to manage risks, enhance social and environmental impact, and secure investor confidence, but the pressure, although largely in the form of voluntary, has also been exerted on Small and Medium-Sized Enterprises (SMEs), which play a crucial role in many economies (D'Angiò et al., 2022; Garrido-Ruso et al., 2024). As pointed out by Fenwick et al. (2022), the purpose of a company goes beyond creating financial value. Companies must also address social and environmental matters through effective governance mechanisms. ESG strategies must be embedded in business strategy in order to achieve long-term sustainability and, for SMEs, ESG integration can attract investments and address their own challenges.

The roles of SMEs in Cambodia's economy have grown significantly in the last decades with the number of MSMEs estimated to be around 99 per cent of a total 753,670 economic establishment operating in the country, employing more than 1.7 million people or 70 per cent of the total jobs created (NIS, 2022). However, the informality of the sector is widespread, with only 44,628 SMEs reported to have been registered with the Ministry of Innovation, Science, Technology and Industry (MISTI) (MISTI, 2023). To foster sector growth and enhance contributions to the national economy, SMEs face a dual challenge. Internally, SMEs must develop their capacities and formalise their operations to gain access to finance, technical support, and tax compliance. Externally, SMEs grapple with issues such as a lack of supply chain management skills, limited foreign market information, and the need to meet different internationally recognised standards (Ratana, 2022).

Amidst these challenges, sustainability reporting has been touted as a critical priority for Cambodia's SMEs. As highlighted by Van (2024), ESG reporting is now indispensable for firms operating within international supply chains. Adhering to ESG standards not only facilitates access to international markets but also offers competitive advantages, enhances risk management, provides access to cost-effective financing, and fosters trustworthy business relationships. While experts and concerned organizations have initiated discussions about the role of ESG in Cambodia's economy, there has been limited exploration specifically within the SME sector (ODC 2024). Consequently, evidence remains scarce regarding Cambodian SMEs' awareness, extant practices, challenges, and the determinants influencing their adoption of ESG initiatives and reporting. This study seeks to fulfil two principal objectives: 1) to augment the extant body of literature on ESG adoption among SMEs within developing markets by examining the trends, drivers, and challenges encountered by SMEs in their ESG endeavors; and 2) to generate empirical evidence that can inform relevant policy and programmatic interventions, thereby equipping and supporting SMEs in the adoption of rational ESG practices and reporting mechanisms within the national context.

The study addresses the following key research questions:

1. What are the challenges faced by Cambodia's SMEs in adopting environmental, social and governance (ESG) practices and reporting?
 - a. What are the drivers and benefits (including legal framework) to adopt? Do SMEs face consequences if they opt not to implement?
 - b. What are the common frameworks or aspects of ESG adopted and materialized by SMEs?
 - c. How have different stakeholders supported SMEs' transition towards ESG adoption?

The findings from this study are anticipated to illuminate the present level of awareness and adoption of ESG principles and practices among Cambodia's SMEs. The data generated through this research will provide a critical reference point for further scholarly investigation and offer essential insights into the SME sector. As SMEs assess their position in the transition toward ESG implementation, the research outcomes aim to elucidate the necessary steps for embedding ESG considerations into their business operations. Specific subgroups of SMEs, depending on their business nature, market contexts, and stakeholder interactions, are expected to derive substantial benefits from this study's findings. For instance, SMEs involved in the exporting sector encountered constant pressure to secure their supply chains. With the growing emphasis on ESG criteria by investors, buyers, and development financiers, it is crucial to examine pertinent policy and program interventions that can support SMEs in preparing for and embracing ESG requirements, practices, and reporting. The research findings will serve as a direct input to such initiatives. In the long run, improvements in ESG adoption and practices within the SME sector may lead to positive outcomes, including enhanced employment conditions, improved financial performance, and progress towards environmental goals in global value chains. Ultimately, this contributes to the broader achievement of the Sustainable Development Goals (SDGs).

2. Literature Review

2.1. Defining Small and Medium-Sized Enterprises

Various criteria are utilized by different organizations to classify firm sizes. The three most common criteria include the number of employees, the amount of capital invested, and the total annual turnover. The International Finance Corporation (IFC) defines SMEs as firms employing between 10 and 300 workers or having capital between \$100,000 and \$15 million. In contrast, the European Commission (EC) defines SMEs as firms employing between 50 and 250 workers or having capital between €10 million and €50 million (International Labour Organization, 2019). In Cambodia, according to the Ministry of Innovation, Science, Technology and Industry (MISTI), small enterprises are those operating with capital between \$50,000 and \$500,000 or employing between 5 and 49 workers. Medium enterprises are defined as companies operating with capital between \$500,000 and \$1 million or employing between 50 and 199 workers (MISTI, 2018).

2.2. ESG definition and its effects on firms' performance

The term Environmental, Social and Governance (ESG) gained prominence in 2004 when the United Nations Compact Initiative introduced its report "Who Cares Wins" which aimed to integrate aspects of ESG into the capital market. Guided by the U.N Compact Principles, the report suggested that ESG aspects are critical for firms to successfully compete in a globalised and interconnected way. The report called for stakeholders, including companies, to implement ESG policies and disclose information on ESG performance (Impact, 2004). Since then, the concept and aspects of ESG have evolved. ESG refers to a set of environmental, social, and governance issues considered by firms and investors when conducting their business and investment activities (IFC, 2021).

Table 1: Pillars of ESG

Pillars	Factors
<i>Environmental</i>	Climate change, carbon management, resource depletion, pollution, energy consumption, land use, loss of biodiversity, water consumption, waste management, innovations or products or services that reduce environmental impact.
<i>Social</i>	Job creation and working conditions, equal opportunity, diversity, training, impacts on local communities, health and safety, child and forced labor across supply chains, grievance mechanisms, human rights, social impact of products, services, or company operations, gender-based
<i>Governance</i>	Purpose, values and culture, board diversity, structure and oversight, succession planning, executive pay, internal controls, risk governance, ethics and compliance, shareholder rights, governance of stakeholder engagement, disclosure and transparency

Source: IFC 2021

The evidence of benefits of ESG implementation remains largely inconclusive. Although many studies have concluded a positive relationship between ESGs and firm performances, these studies have limitations in their data and inconsistencies in ESG standards and indexes (Arsin, 2023). There are strong and well-established business cases for companies to adopt and implement ESG policies and report their related performances. ESG implementation is crucial for companies as it can help promote long-term valuation, risk management, compliance level, and redefine business purpose and stakeholders' priorities. Firms with better ESG performance have outperformed their counterparts

with poorer ESG performance (IFC, 2021). Similarly, a study of listed companies in Italy suggests that ESG disclosure has a positive impact on firm performance, particularly regarding the implementation of environmental and social policies (Carnini Pulino et al., 2022).

Studies attempting to measure the effect of ESG performance on firms' outcomes have yielded mixed results. Carnini Pulino et al. (2022) suggests a positive relation between the environmental and social components and companies' performance; however, no evidence indicates that changes in governance have led to the similar results. Conversely, governance aspects such as executive compensation and board diversity are positively associated with firms' financial performance, whereas the environmental and social pillars adversely affect firms' financial performances (Shaikh, 2022). Similarly, the work by Nareswari, Tarczyńska-Łuniewska, and Al Hashfi (2023) on the effect of ESG score and financial results among Indonesian firms confirmed Shaikh (2022)'s findings.

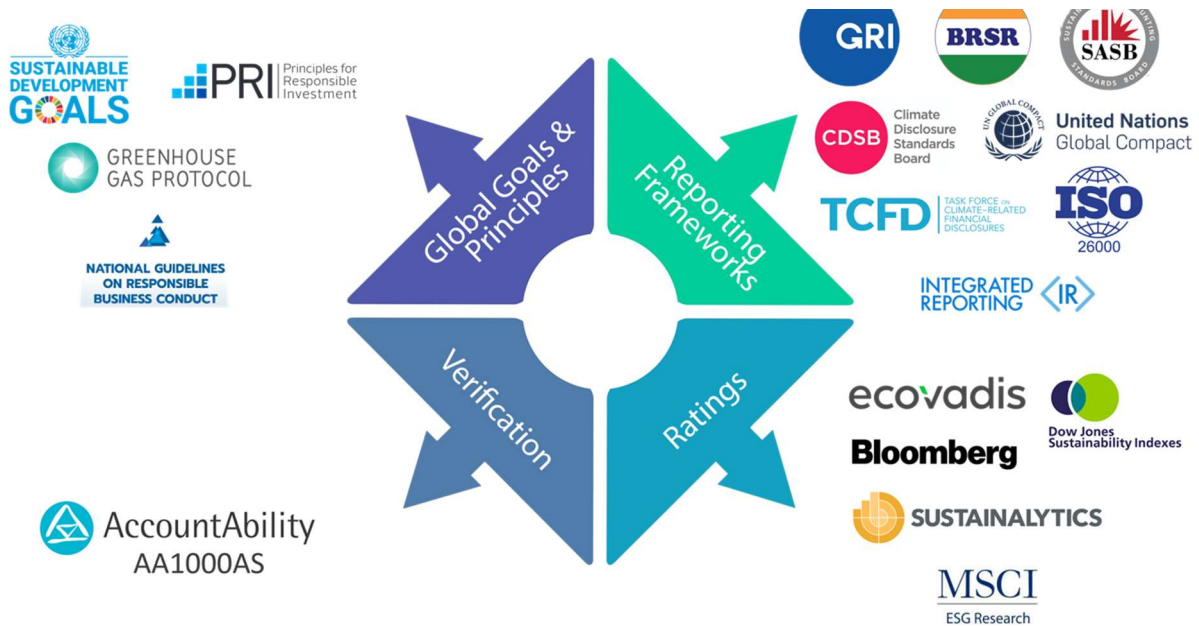
On the downside, ESG has recently been criticized for attempting to achieve too many objectives simultaneously, often resulting in complexity and contradictions. In the context of combating climate change, it is suggested to separate the environmental components from the social components. This separation would allow companies and stakeholders to better prioritize their targets and focus their efforts (Economist, 2022). Furthermore, the ESG framework has not sufficiently addressed the decent work aspect, which is a crucial element of the social pillar. The variation in availability and methodologies of decent work data used by ESG rating agencies has hindered accurate assessment and capture of this component (Louche, Delautre, & Balvedi Pimentel, 2023).

Notably, ESG factors are also gaining prominence for SMEs. Fenwick et al. (2022) posited that ESG strategies confer significant advantages to SMEs, including enhanced market strategies and improved cash flow. These strategies are pivotal for attracting and retaining key stakeholders, such as investors, employees, and customers. While the impact of ESG on SME performance may be less immediately evident compared to large corporations, this discrepancy is partly due to the absence of obligatory ESG reporting requirements for SMEs. Furthermore, extant research has primarily concentrated on large corporations, resulting in limited evidence regarding the specific impact of ESG on SME performance.

2.3. Growing recognition gives rise to multiple ESG framework

Despite the inclusive evidence on the benefits, ESG frameworks have gained global recognition. Enterprises, particularly large and multinational corporations, are increasingly compelled by regulatory pressures and market competition to implement ESG policies and disclose their performances. In 2022, data showed that 96 per cent of the largest 250 companies and 79 per cent of the 5800 leading companies reported their sustainability performance (KPMG, 2022). The value of global ESG assets is also experiencing significant growth. According to Bloomberg Intelligence (BI), global ESG assets are projected to exceed USD 40 trillion by 2030 (Bloomberg, February 08, 2024). To facilitate the adoption by investors and corporations, numerous sustainability reporting frameworks, standards, and tools have been developed and are continuously evolving. Although a universally endorsed standard has not yet emerged, indications suggest a movement towards a unified methodology for corporate sustainability reporting (Shalhoob & Hussainey, 2022).

Figure 1: Wire Consultancy's ESG Framework



One of the most widely utilized sustainability reporting standards by enterprises is framework developed by the Global Reporting Initiative (GRI), which is an independent not-for-profit organization. GRI sustainability reporting standards enable various types of organizations and companies, including sector-specific entities, to publicly disclose a broad range of their economic, environmental, and social performances. Organizations may report on a voluntary basis or select specific issues that are material to their business activities and stakeholders (GRI standards 2021). In 2023 alone, there were 846,165 downloads of the GRI Standards (GRI 2023), with an estimated 10-15 per cent of standard users being SMEs (Val, 2022). However, the GRI framework is not without its limitations. Due to its high degree of flexibility and voluntary nature, stakeholders may encounter challenges in comparing data, and users might lack detailed guidance for sector-specific reporting.

Another prominent reporting standard is the Sustainability Accounting Standards Boards (SASB), which provides industry-specific guidance for companies to identify, manage, and report ESG standards comparably between firms in the same sector. This framework is designed to align sustainability performance with financial performance, thereby addressing the needs of investors (SASB, 2022). However, the SASB framework has notable limitations, including its strong financial focus, which may render it excessively complex for small and medium-sized enterprises (SMEs) and offer limited opportunities for stakeholder engagement, as it primarily targets investors.

One of the predominant frameworks for ESG reporting is the Task Force on Climate-Related Financial Disclosures (TCFD). This framework is intended to assist companies in reporting their climate-related risks and opportunities. It provides guidance for enterprises to disclose their governance structures for managing climate-related risks, the potential and actual impacts of identified risks on their businesses, risk management strategies, and climate-related targets. Although the comprehensiveness of the TCFD framework and its widespread adoption by global stakeholders are notable strengths, it has been critiqued for being highly technical and complex. The voluntary adoption may also result in inconsistent reporting and data that are difficult to compare (Meyer, 2023)

2.4. Why SMEs should embrace ESG: key drivers

Large enterprises are under increasing pressure and are more likely to invest in ESG activities due to heightened interest of stakeholders in firms' ESG performance (Bissoondoyal-Bheenick, Brooks, & Do, 2023). However, the impact of companies on the environment and society is not solely dependent on the firms' legal status and size. Green investments should not be restricted to large and listed enterprises, investors, the financial sectors, and insurance firms. SMEs, whether listed or non-listed, should be included (Ferrazzi and Tueske 2022). The lack of consistent and high-quality ESG data of SMEs limits the information available to investors, thereby hampering their capacity to manage investment risks (Markopoulos, Al Katheeri, & Al Qayed, 2023). This underscores the roles of firms of all sizes and types, including SMEs in both developed and developing markets, in meeting certain ESG obligations to ensure that their business activities do not only avoid harm but also contribute to creating positive environmental and social impacts.

Building on the research conducted by Kechiche and Soparnot (2012) concerning the integration of corporate social responsibility (CSR) in small and medium-sized enterprises (SMEs), it is evident that CSR practices, once predominantly associated with large corporations, have progressively become integral to SMEs. This shift is largely attributed to the ethical commitments of SME owners and leaders, alongside the potential benefits of CSR, which include increased efficiency, cost reduction, improved waste management, and enhanced workforce productivity. Although the empirical evidence regarding the benefits from CSR remains ambiguous and the challenges of implementation within the SME sector persist, the adoption of CSR practices offers substantial opportunities. These opportunities encompass enhanced engagement with communities of practice, improvement of the social and business environment, bolstering business reputations and confidence, and fostering employee well-being, motivation, and productivity. Therefore, understanding the mechanisms through which SMEs engage with CSR and the resultant impacts is of paramount importance (Morsing & Perrini, 2009). This body of literature categorizes the drivers of ESG adoption beyond multinational corporations (MNCs) towards smaller firms in the global supply chain into four distinct categories.

Increased regulations: The regulations concerning ESG are increasing in scope and complexity. Although these regulations are primarily designed to target multinational corporations (MNCs) within the supply chain, they frequently adopt a holistic value chain approach, thereby indirectly influencing SMEs through their business with larger firms subject to these regulations. As articulated by Taylor & Painting (2024), SMEs should not be excessively concerned with the specific legal standards they must comply with, but rather with the requirements imposed by their sourcing partners. It is also pertinent to acknowledge that the regulatory framework is anticipated to grow and extend its reach to encompass SMEs. An analysis by Bossut et al. (2021) advocating for the expansion of the Corporate Sustainability Reporting Directive (CSRD) highlights that the current scope covers approximately 80 per cent of all heavy industry and only 30 per cent of economic sectors dominated by SMEs, suggesting a probable future expansion of regulations to include SMEs.

Supply chain pressure: One of the key drivers for SMEs adopting ESG practices is their relationship within the global supply chain. With the requirements around ESG reporting and traceability in the global value chain becoming more rigorous, companies, including SMEs suppliers, are experiencing domino effect and are under constant pressure to meet ESG requirements (E. Stek and Nungsari, 2023). More and more large enterprises recognised the opportunity down the supply chains to achieve business success, create more impact and manage risk more effectively. SMEs may be more responsive to the need of maintaining business relationships with their customers who are equipped with a substantial level of resources and bargaining powers to extend their ESG strategies beyond their own operations to their business partners in the supply chain (ILO 2022; GRI 2021; Tomboles

2023). Large firms drive ESG adoption in their supply chain, including SMEs, by providing capacity-building support, integrating ESG requirements in their suppliers' recruitment policies, or procurement (Knihová & Jílková, 2023; Tomboles 2023).

Access to finance: Sustainable investing is on an exponential rise. Uzsoki (2020) found that both private and institutional investors are altering their investment strategies. Private investors, particularly millennials, are more inclined to invest in firms with high social and environmental impact than their peers. Institutional investors, including fund managers, pension funds, sovereign wealth funds, and central banks, face pressure from their stakeholders, political demands, and regulations to integrate ESG mandates into their portfolios. Similarly, Kuteesa et al (2024) observed that both developed and emerging economies increasingly recognize the importance of integrating ESG criteria into financial services. Evidence indicates that institutional investors assist SMEs in developing into high performers in ESG and realizing their sustainability goals (Drobetz et al., 2024).

In addition to changes in investment landscapes, there are also noticeable flows of sustainable financing in forms of grants and loans. Enterprises are somehow attracted to these forms of financing due to subsidised interest rates or in grants which often require companies to report a range of ESG metrics, such as energy efficiency and waste reduction (EU SMEs Survey, 2023). There is a significant positive relationship between environment sustainability commitment and corporate governance and access to finance among SMEs. ESG commitments have the potential to create a positive impression with banks and investors, removing barriers to obtaining external finance (Dzomonda, 2022). In this context, SMEs must align their access to finance with investors' values and demands by starting to assess their ESG topics and tracking their ESG performance (Tomboles, 2023).

Business incentives and other enabling factors: Although existing evidence does not unequivocally establish the link between ESG practices and their impact on SME performance, the adoption of ESG can yield benefits such as generating business opportunities, reducing costs, improving workers' productivity, and enhancing revenue generation. The adoption of ESG practices will gradually enhance SMEs' capacity to track and report ESG data (Tomboles 2023). Another factor that facilitates adoption among SMEs is the level of firms' awareness of ESG. This awareness is crucial for firms to initiate their ESG journey (Carnini Pulino et al., 2022). Tran and Nhuyen (2023) argued that board structures and characteristics, including the diversity of board members, Board members' knowledge of ESG, and leadership styles, are the most influential factors affecting ESG adoption. However, it is essential to acknowledge that not many SMEs have resources to support such board structure.

2.5. Challenges faced by SMEs in navigating ESG

While ESG has become a strategic consideration for investors and global supply chain actors, SMEs encounter numerous challenges on their ESG journeys. A systematic review on the challenges facing SMEs in implementing sustainability reporting identified six distinct categories of challenges: 1) financial limitations, 2) SMEs' attitudes towards ESG reporting, 3) lack of awareness of its strategic importance, 4) data management systems and tools, 5) complexities within SMEs, and 6) socio-economic contexts and regulatory frameworks (Setyaningsih, Widjojo, & Kelle, 2024).

The characteristics of SMEs may obstruct their ESG reporting efforts (Yasaswi, Balagurubaran, & Kandi, 2023). This is supported by Tran & Nhuyen (2023), who concluded that smaller firms are less likely to invest in sustainability initiatives.

Lack of resources and expertise, the absence of suitable ESG reporting frameworks, and the lack of dedicated software and tools are key hurdles preventing SMEs from effectively reporting their ESG performance. It is recommended that ESG scale and criteria for SMEs be set at a less demanding level,

appropriately prioritized according to relevance, and supported by software and data management systems. This should reflect the circumstances, characteristics, and financial and technical capacities of SMEs, allowing them to learn, report, and benefit from their ESG results. The authors suggest that SMEs are likely to struggle to develop sustainability strategies, prioritize ESG aspects to work on, or initiate ESG reporting (Markopoulos, Al Katheeri, & Al Qayed, 2023).

For many SMEs, there is a lack of direction regarding ESG adoption, and they perceive investments in ESG activities and reporting as uncertain. This situation is further complicated in developing countries. Compared with large corporations, SMEs face significant difficulties in turning ESG outcomes into monetary benefits. ESG investments may generate both positive and negative outcomes; therefore, companies are advised to take a cautious approach and be mindful in managing their resources as they engage with and invest in ESG. Simple moves like setting up an ESG committee or having personnel dedicated to ESG matters can incur significant costs for SMEs. Therefore, it is recommended that SMEs should address ESG priorities that yield an impactful result such as improved employee motivation and retention and better productivity, leading to creating values and visibility for SMEs (Garrido-Ruso et al., 2024).

2.6. Has there been a suitable ESG framework for SMEs?

Literature seems to agree that the absence of clear, consistent and resource-sensitive ESG framework and requirements is a critical element in SMEs' journey towards a wider ESG adoption. It is the aspect that this paper aims to clarify. It is critical to assess which ESG factors are more relevant to SMEs, given different contexts in which these enterprises operate and their unique characteristics (Knihová & Jílková, 2023). Equally important is the establishment of a roadmap to identify adoption gaps and address them subsequently with support provided to SMEs by the government and financial institutions (Ferrazzi & Tueske, 2022). Moreover, key regulations, such as the EU's directives, have recognised this pain point by suggesting that SMEs should be allowed to choose to report sustainability performance using "proportionate standards" on voluntary basis (EU directive 2022).

There have been attempts to suggest what ESG issues should be taken into consideration by SMEs. For example, Ferrazzi and Tueske (2022) provide generic advice and encourage SMEs to consider a green approach to source their production input or efficiency of every aspect of the supply chain for environmental reasons. On social aspects, it is important for firms pay attention to community impact and conditions of work, including inclusivity and diversity in the workplace. To address governance part, SMEs may prioritize transparency and achieve full compliance with regulations and stakeholders-introduced guidelines and standards.

Katheeri, Markopoulos, and Al-Qayed (2023) recognised limitations (such as data standardisation issues, inconsistency, and resource-intensive) of the existing ESG frameworks, as intended for large corporations, in their application within SMEs contexts, especially in emerging markets. Based on analysis of existing frameworks and identified challenges, opportunities and adoption capabilities of SMEs, they developed a SMEs-ESG framework capturing only requirements and indicators suitable for implementation and reporting by SMEs. The framework is divided into 9 categories and twenty-seven themes, paving the way for a lighter scale of ESG reporting, a cost-efficient model, and less complicated reporting for SMEs (see table 2).

At the implementation level, there is a growing emphasis and concerted effort at both regional and national levels to develop practical and implementable ESG standards specifically tailored for SMEs. For instance, Stek and Nungsari (2023) have advocated that ASEAN governments can significantly benefit from implementing strategies to regulate, incentivize, and support ESG initiatives among SMEs.

Furthermore, the Securities Commission of Malaysia has taken a proactive step by introducing a streamlined and standardized set of guidelines for ESG disclosures specifically designed for SMEs. This framework, aptly named the Simplified ESG Disclosure Guide (SEDG), encompasses 15 key ESG topics and provides 35 specific disclosures that SMEs can voluntarily choose to report on their performance. The SEDG serves a dual purpose: it provides SMEs with a simplified and standardized framework for ESG disclosures while simultaneously offering stakeholders a clear and concise set of disclosures they can request from these companies (CMM, 2023).

Table 2: SMEs-ESG Framework by Katheeri, Markopoulos, and Al-Qayed

ESG Pillar	SMEESG Category	SMEESG Theme
Environmental [E]	Innovation [E1]	Social innovation [E1.1] Sustainable innovation [E.1.2]
	Sustainable natural resources [E2]	Green revenues [E.2.1] Human intellectual capital [E.2.2] Renewable resources [E.2.3] Water security [E.2.4]
	Emissions [E3]	Pollution [E.3.1] Clean technology [E.3.2]
Social [S]	Labor standards [S1]	Compensation [S.1.1] Workplace benefits[S.1.2] Workplace safety [S.1.3]
	Community development [S2]	Career development [S.2.1] Training [S.2.2] Human rights [S.2.3]
	Customer responsibility [S3]	Product Quality [S.3.1] Responsible Marketing [S.3.2] Sustainable packaging [S.3.3]
Governance [G]	Risk Management [G1]	Data privacy [G.1.1] ESG reporting [G.1.2] Business continuity [G.1.3] Disaster recovery [G.1.4]
	Transparency [G2]	Tax transparency [G.2.1] Progression transparency [G.2.2] Anti-corruption [G.2.3]
	Board diversity [G3]	Board independence [G.3.1] Diversity and inclusion [G.3.2] Structure (independence, committees) [G.3.3]

2.7. Global trend: ESG adoption among SMEs

An analysis of the drivers and barriers of ESG adoption among SMEs indicates that ESG practices beyond large multinational corporations and down the global supply chain have begun to emerge, with signs suggesting that the trend will accelerate in a near future. Distinct progress has been observed in Europe in efforts to strengthen sustainability reporting through expanded regulations, reporting standards, and firm adoption, as evidenced by the Corporate Sustainability Reporting Directive of 2022. A high level of eagerness among SMEs to transform has been noted, with almost 60 per cent of surveyed SMEs investing in their sustainable transition and actively addressing sustainability priorities. Notably, 12 per cent of SMEs voluntarily produce sustainability reports and have secured external ESG ratings for their companies, while a striking 30 per cent have established environmental management systems (Eurochambres, 2023).

Despite significant progress made in Europe, the implementation of the ESG reporting framework remains on a voluntary basis (Clarkin et al., 2020). Many larger SMEs, which will soon be obliged to generate sustainability reports, are not adequately prepared for the introduction of the Corporate Sustainability Reporting Directive (Eurochambres, 2023). Ferrazzi & Ferske (2022) found that there is a generally weak performance of small and medium sized firms in their transition to sustainable business models in the Middle East and North Africa (MENA). This trend is observable across various economies and sectors.

2.8. ESG in Cambodia's development contexts

Sustainability reporting is a relatively new concept in Cambodia, and both companies and their stakeholders have not fully recognised its importance even the landscape is evolving (Ma'aji, 2020; Ma'aji et al., 2022). The initial and most noticeable form of ESG practices arrived in Cambodia in the late 1990s when the Royal Government of Cambodia signed a trade agreement with the US government linking Cambodia's increased access to US markets to improve working conditions. This bilateral agreement resulted in the establishment of the ILO-managed Better Factories Cambodia (BFC) Programme, mandated to monitor and report on working conditions according to the ILO's core labour standards. In response, manufacturers implemented systems and policies to ensure compliance with BFC's requirements. The programme fostered trust among international sourcing brands and bolstered consumer confidence in products sourced from the Kingdom and it continues to play a significant role in the country's largest exporting sector. Despite this incredible success, BFC cover only the large and exporting enterprises, thus limiting its impact to the firms, workers, and institutions within the garment industry. BFC predominantly addresses social and labour issues, with limited focus on environmental and governance considerations (BFC 2024; MEF 2022).

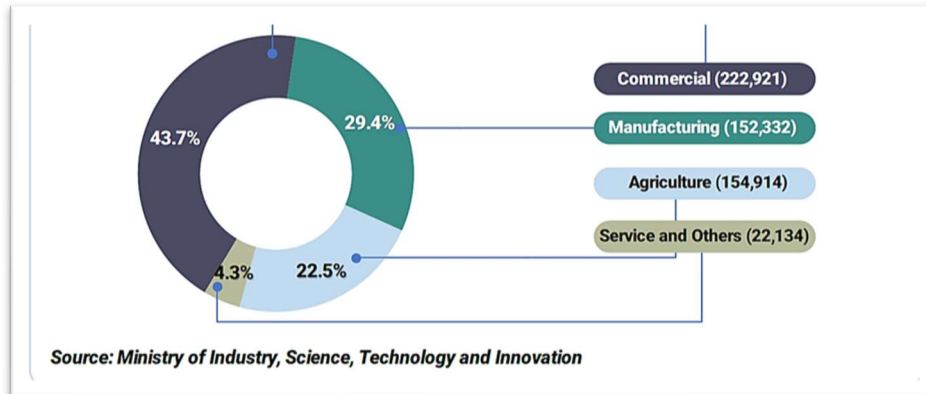
ESG reporting presents an opportunity to enhance Cambodia's competitiveness through the attraction of foreign investment and improvement of the business environment. Stakeholders have heightened expectations for ESG performance (Ma'aji, 2020). Despite this, the adoption and practice of ESG beyond the garment industry remain infrequent and inconsistent within Cambodia. A limited number of large firms have initiated ESG practices. Increasingly, companies within the financial sector are beginning to report their ESG performance, representing the largest segment among identified ESG adopters. Firms in tourism and leisure and telecommunication sectors are among the first adopters following the financial sectors. The level of awareness of the financial sector, institutional investors and its association with the financial market and analysts are significant drivers of the ESG reporting of banks and financial institutions. In contrast, those in tourism are often motivated by the need to attract sustainability-minded guests, thus employing ESG reporting as a strategic marketing tool (Miethlich, 2019).

2.9. Where Cambodia's SMEs stand in the ESG journey?

The SMEs sector holds the key to the future economic growth in Cambodia, offering potential for innovation, economic diversification and product exports. According to the 2022 economic census, there were 735,456 establishments in Cambodia, approximately 99.8 per cent of which are MSMEs, accounting for 58 per cent of the GDP and 70 per cent of all jobs created. However, only 44,628 of these companies are officially registered as of December 2023 (MISTI, 2024; Ratana-Phurik, 2020). This low level of compliance is due to different types of barriers such as lack of legal coverage, the complexity of formalisation, costs of formalisation and remaining formal, and tax liabilities as a result of formalisation (CAPRED Strategy 2022-2027; ILO Policy Brief 2024). This results in a company's inability to do business professionally at the international level, as well as attracting regional investors and developers to the country (Kosalsereyvuth Chhim, Julien Lay, 2021).

Cambodia's SMEs are categorized into three sectors: agriculture, industry and service and commercial. According to the Ministry of Industry, Science, Technology, and Innovation, 43.7 percent of SMEs operate in the commercial sector, 29.4 percent in manufacturing, 22.5 percent in agriculture, and 4.3 percent in service and others.

Figure 2: Share of SME Segments in Cambodia 2019 (% of total SMEs)



SMEs are more vulnerable to crises and have to constantly tackle business challenges such as access to finance, skills shortages, productivity improvement, acquiring new technologies, and fulfilling basic compliances to survive, grow, and compete in domestic and international markets (ITC, 2022). In this context, Cambodia's SMEs are more likely to face an additional challenge in navigating ESG requirement if the sector is to compete and remain relevant in the global markets. Simultaneously, given their significant roles in the country's economy, SMEs have the potential to contribute to achieving the UN's SDGs and Climate Change- related targets through improving their environmental, social, and governance considerations and practices.

Data on ESG performance among Cambodian SMEs are particularly scarce. Miethlich (2019) found, through analysing databases, that a very limited number of SMEs had begun reporting their sustainability since 2013. However, a larger dataset on number of SMEs reporting ESG in the country remains absent. A few other studies yielded some related evidence. Amalia-Elena (2020) analysed SMEs policies in ten ASEAN countries and categorised Cambodia as having few or no SMEs policies that focus on ethics and sustainability, while most ASEAN countries prioritise the development of the SME sector before they reach a stage where sustainability becomes more relevant. Another study suggested some evidence that ESG factors were among key factors that precluded SMEs (86 per cent) from engaging and benefiting from Global Value Chains (GVCs), as many of them have limited capacity to obtain certificates recognising product quality and safety standards (Sok et al., 2020). This suggests the need to increase awareness, guidance, financial incentives, and programs to get more SMEs involved in sustainability reporting in Cambodia (Flores, 2023b).

There are several common issues associated with the transitioning to ESG reporting. Firstly, there is limited awareness of business owners and managers regarding the potential benefits and risks linked to ESG reporting (Ma'aji, 2020). Secondly, the absence of a national or universally recognized standard and framework for ESG reporting in Cambodia leads to confusion and inconsistency in reporting practices. Companies identified in studies tend to utilize GRI standards, while others report their ESG data on their own websites (Miethlich, 2019). Thirdly, Ma'aji et al., (2022) argue that the lack of legal requirements for ESG, the absence of disclosure incentives, and insufficient awareness of the strategic importance of sustainability reporting in establishing competitive advantage and sustainable business model have hindered the adoption of ESG reporting among companies. Additionally, Flores (2023b) and Ma'aji et al. (2022) identify the absence of tailored technology and data management systems

supporting reporting purposes as another challenge for companies in adopting ESG reporting. It is important to note that these challenges were identified in studies that did not specifically focus on SMEs and thus may not fully reflect the situation of SMEs.

2.10. Summary of literature review

ESG principles has been prevalent for several decades, playing a significant role in corporate and development texts. There is no sign that this role is diminishing; rather, their significance is anticipated to grow and extend beyond the current boundary of impact. Given that SME sectors are often constitute the backbone of many economies, ESG requirements and practices are emerging as both opportunities and challenges for numerous companies. This development is driven by several key drivers: the regulatory and policy framework either in sourcing or producing countries the pressure exerted by trading partners within supply chains, the evolving criteria for accessing finance in increasingly influenced by ESG considerations, and the immediate benefits and long-term business advantages that SMEs can achieve through engagement with ESG practices and reporting.

Navigating through ESG requirements is not straightforward, and for SMEs, the new requirement adds an extra layer of challenges to the current ones. At conceptual level, the ESG framework and standards for SMEs are still in their infancy, requiring substantial configuration and adaptation. ESG regulations remain inconsistent and vary according to governments' priorities and contexts. At the implementation level, SMEs lack suitable, commonly recognised standards and tools to use while grappling with technical and resource constraints.

While there are no specific findings regarding the perspective, practice, and challenge faced by SMEs in Cambodia in adopting ESG principles, existing studies have underscored the necessity for focused research on these experiences. For instance, Flores (2023a) recommended conducting a comprehensive survey to analyse the perspectives, practices and trends of firms in Cambodia. Similarly, Ma'aji et al., (2022) emphasised the importance of in-depth investigation into factors influencing firms to adopt sustainability reporting.

3. Research Methodology

The research employed explanatory mixed methods to answer the research questions. First, an online survey was conducted with SMEs. This was followed by qualitative data collection through in-depth interviews to explore insights and clarify the survey results.

Quantitative approach: The researchers administered a structured questionnaire consisting of 61 unique questions to assess various aspects related to ESG within SMEs. These questions explored SME characteristics, ESG knowledge and understanding, current ESG practices and reporting levels, challenges, opportunities, and available support systems. The overarching aim was to comprehensively capture the landscape of ESG adoption and implementation among SMEs. For data collection, this study utilized an online tool called Kobotoolbox.

3.1. Sampling methodology

According to the 2022 Economic Census, the total number of enterprises—both formal and informal—in Cambodia is estimated at 753,670, with 99 per cent of these falling into the micro, small, or medium enterprise category (NIS 2022). In 2023, MISTI (as reported in its annual report) indicated that 44,628 enterprises were registered in its database (MISTI, 2024). The number of SMEs, defined as those employing between 11 and 100 individuals and officially registered, was 12,104. With regard to manufacturing sector, which is the focus of this study, the number of SMEs is markedly lower. Specifically, there are 5,658 SMEs registered with the Ministry of Commerce and 8,625 entities registered with other Ministries and Agencies (NIS, 2022).

Given the investigative nature of the study, this survey deploys a non-probability sampling technique known as “convenience sampling” to recruit respondents, rather than trying to represent the whole industry. This method addresses challenge of a large population size, which is difficult to reach and resource constraints. In this approach, survey samples are selected from the population based on their convenient availability to the researchers. An online self-completion questionnaire was developed grounded in the literature review, tested, and subsequently distributed to SMEs using the obtained lists of SMEs.

3.2. Data collection

The research team disseminated the online questionnaires to more than 400 registered SMEs employing at least 11 employees using both existing telegram and generic contact email address. Furthermore, follow up calls and emails were used to ensure maximum participation of the invited SMEs. The research team received 62 respondents during the survey completion, which spanned from August to September 2024. The respondents' roles were primarily owners and founders (68 per cent), followed by managing directors or CEOs (18 per cent). Additionally, the survey was completed by staff holding various titles such as head of the risk department, head of the sales department, manager, and assistant to the CEO (11 per cent). Only 3 per cent were HR or finance managers. These profiles indicate that the respondents likely possess significant institutional knowledge and are well-versed in their respective firms' business strategies.

Qualitative data: In-depth key informant interviews were used to collect qualitative data and insights from selected key informants representing SMEs, SMEs Associations, governmental departments responsible for the SMEs sector, financial institutions, concerned investors, and support organisations in Cambodia's SMEs sector. Guidelines of semi-structured questions were developed for specific KIs using the perspectives and insights gained through secondary data and survey data. The study uses a purposive sampling method informed by the online self-administered survey results to recruit the SMEs for in depth interviews and onsite visits.

A total of 13 key informants representing SMEs, business associations, financial institutions, government officials, NGOs, development partners, and employees of SMEs were interviewed. The selection of SME cases for in-depth interviews was informed by the first phase (quantitative data collection). To elucidate the experiences of SMEs in managing the ESG transition, the study purposefully selected only those SMEs that reported having dealt with ESG requirements, made efforts to comply with those requirements, and declared having shared ESG performance with their business partners. Among the four selected SMEs, three were exporting and officially registered companies, and one was producing solely for the domestic market but actively seeking ways to export its products to the international market. The interviews were conducted both in-person and virtually, and two onsite visits were conducted during October and December 2024 to interview SMEs.

The research conducted study visits to two SMEs producing for exports. The table below shows the list of representatives from relevant organizations who participated in the in-depth interviews.

3.3. Limitations

The research findings might be constrained by the following limitations:

1. **Generalizability:** The study's sample size is relatively small, comprising 62 SMEs, which may not fully represent the entire population of SMEs in Cambodia, restricting the generalizability of the findings to all SMEs across different sectors and regions.
2. **Different levels in ESG understanding:** The variability in SMEs' understanding and interpretation of ESG concepts can impact the consistency and comparability of the findings. Future studies could incorporate standardized measures of ESG knowledge and literacy to ensure more consistent and reliable data collection.
3. **Methodological limitation:** The reliance on self-reported data introduces potential biases, as respondents may overstate or understate their ESG practices and challenges. Additionally, the use of qualitative interviews, while providing in-depth insights, lacks the statistical rigor and objectivity of quantitative methods.
4. **Time limitation:** The study was conducted over a specific period, which may not capture the dynamic nature of ESG adoption and its impact on SMEs over time. ESG practices, standards, and regulations are continually evolving, and the findings of this study may become outdated as new developments emerge. Longitudinal studies that track changes in ESG practices and their effects over an extended period are recommended to address this limitation.
5. **Contextual limitation:** The study focuses specifically on Cambodian SMEs, which may limit the applicability of the findings to other firms. Cultural, economic, and regulatory differences between regions can influence how ESG practices are adopted and implemented. Therefore, the insights gained from this research may not be directly transferable to SMEs in different countries or industries.

4. Findings

4.1. An overview of Cambodia's regulatory framework related to ESG

Although Cambodia does not yet have a regulation specifically governing Environmental, Social, and Governance (ESG) implementation and reporting, various legal frameworks and policies related to ESG matters are already in place. These legal instruments address different ESG aspects but lack clarity and cohesiveness. As found by Ma'aji (2022), enforcement of these existing regulations remains limited, and there is an absence of mandatory reporting requirements. Additionally, there is a clear intention in the Pentagonal Strategy to formulate and implement policy frameworks and incentive schemes to promote environmental and social responsibility among businesses (RGC, 2023, p. 32). As ESG becomes increasingly significant on a global scale, it may be time for Cambodia to further examine and refine its regulatory landscape in this area (Sam, 2023; Vannarith, 2021; Socheata, 2024).

On the environment aspect, several laws and legislations have been introduced to protect and minimise impact on environmental and natural resources. The existing environmental legal instruments include article 59 of the Constitution (1991), the Environmental Code (2023), Sub-Decree on Environmental Impact Assessment Process (1999), the Prakas on General Guidelines for Developing Initial and Full Environmental Impact Assessment Reports (2009). The Environmental Code (2023) requires all project owners either public or private, to assess their negative impacts on the environment and natural resources in Cambodia (Art. 649, 650 & 651) and such projects may be required to conduct a full Environmental Impact Assessment (EIA), an Initial Environmental Impact Assessment (IEIA) or an Environmental Protection Contract depending on their impact level, i.e., serious, medium or minor (Art. 657). Although no specific article has been introduced to govern or guide the implementation of ESG reporting among companies, the 2023 Environmental Code recommends that the Ministry of Economy and Finance and the Ministry of Environment draft policies and legal instruments on economic rules supporting the environment, natural resources, society, and cultural governance. Among other specific environmental matters, the code highlights the incorporation of environmental and social performance standards and risk management into decision-making by the officially registered businesses and the finance sectors (Article 759, pag. 232). With the regulatory framework governing the environment and natural resources moving towards a strategic environmental assessment approach, ESG considerations may receive more attention in the regulatory discussions. Additionally, numerous soft laws and policies support ESGs practices in Cambodia, such as Cambodia Climate Change Strategic Plan 2014-2023 and the National Environment Strategy and Action Plan 2016 – 2023.

Furthermore, there are significant regulations that encompass social and labor aspects, forming the "social" pillar of ESG. Despite potential revisions, the Labour Law of 1997 provides a comprehensive framework for the governance of private enterprises across various sizes and industries, effectively encompassing SMEs. This legislation offers a broad spectrum of labor protections, including but not limited to: child labor, workplace discrimination, forced labor, employment contracts, general working conditions, wages, working hours, leave entitlements, freedom of association, apprenticeships, and labor dispute resolution. Moreover, the Law on the Social Security Scheme, enacted in 2019, guides the governance and administration of Pension, Health Care, Occupational Risk and (forthcoming) Unemployment Schemes. The enforcement of this legislation has resulted in a heightened participation rate among registered enterprises, thereby enhancing worker protection against occupational hazards, improving health care coverage, and encouraging participation in pension schemes.

In addition, the regulatory framework is expanding regarding the social pillar. The Law on Consumer Protection was introduced to establish rules and mechanisms for safeguarding consumer rights and interests, ensuring fair competition, and enhancing confidence in trading relationships between consumers and traders. The law specifically mandates the disclosure of production information to consumers. The 2022 Law on Food Safety outlines the legal standards and procedures for ensuring food safety, quality, and sanitation in all food production and business operations, with the exception of street food vendors, to prevent and mitigate risks associated with food consumption. Furthermore, all construction projects are required to guarantee the occupational safety and health of workers at construction sites, as delineated in Articles 7-9 and 39 of the 2019 Law on Construction.

In the context of enterprise governance, several laws and regulations address different aspects of the governance framework. The Law on Commercial Enterprises (2005) governs an enterprise's legal structure, classification, share ownership, and the legal rights and obligations of the company, its directors, and board members. The Prakas on Corporate Governance for Public Listed Enterprises (2010) was introduced to ensure good governance, protect the rights of shareholders and stakeholders, establish governance structures, and define the roles and responsibilities of the board of directors. Additionally, although it does not explicitly mention non-financial matters, the Prakas requires companies to disclose business-related information on their dedicated websites or in written reports. It emphasizes compliance with enforced laws and proper risk management. Nonetheless, it is important to note that the Prakas applies specifically to public enterprises conducting public offers of securities.

The governance of SMEs may encompass various regulatory prerequisites contingent upon the size, specific requirements, and operating sectors of these enterprises. For business registration and licensing, SMEs are mandated to adhere to the Prakas on Management of Issuing Business Service and Trade Permits issued in 2018 by the Ministry of Commerce, along with the 2019 law on E-Commerce. Businesses might be required to acquire diverse business-related certifications and ensure inspections from specialized ministries, including the Ministry of Labor and Vocational Training (MLVT). Tax registrations, such as the patent tax certificate, certificate of tax registration, and tax identification card) are essential and are administered by the General Department of Taxation (KHMER SME, accessed on September 24).

The Ministry of Industry, Science, Technology, and Innovation (MISTI), through the General Department of SMEs and Handicraft, is responsible for governing and developing the SME sector in Cambodia. Furthermore, the Law on Standards of Cambodia (2020) mandates that operating SMEs apply for Standard Certificates from the Institute of Standards of Cambodia. These certificates acknowledge the technical specifications and guidelines related to the products, production processes, and services offered by the certified SMEs. They are pivotal in ensuring industry competitiveness, market functionality, environmental protection, public health, and innovation management.

Enterprises and subcontractors involved in major development projects financed by the Development Financial Institutions may be required to report and develop plans to ensure that environmental and social standards are met. This includes regular reporting, establishing management structure and creating environmental and social instruments that cover environmental issues, labour conditions, occupational health and safety and community health and safety (MISTI – ESCP 2023).

4.2. Results from survey and in-depth interviews

4.2.1. Characteristics of the Studied SMEs and their ESG practices

A total of 62 respondents from 62 SMEs participated in the self-administered survey, of which 44 per cent were female. In terms of tenure, the vast majority of the respondents had spent a significant length of time leading or managing their enterprises. Forty-five percent of participants had been with their businesses for 2-5 years, 29 per cent for 5-10 years, 23 per cent for over 10 years, and less than 5 per cent for 1-2 years.

More than half of the surveyed SMEs (53 per cent) were in the agri-food manufacturing and processing sector. Nine companies (15 per cent) reported operating in the wholesale or retail trade sectors, and 14 companies (23 per cent) indicated involvement in services, construction, finance, education, and e-commerce activities. The remaining six SMEs (10 per cent) were engaged in the accommodation and food service sector, mining and quarrying, textile, apparel, and travel goods manufacturing, electricity and gas, and transportation.

Table 6 shows that among the 62 surveyed SMEs, 27 per cent reported operating for 3-5 years, 24 per cent for 5-10 years, 19 per cent for 10-15 years, and 11 per cent for over 15 years. Only 2 per cent reported starting operations less than a year ago. Regarding the size of the workforce, 40 per cent employed 11-50 workers, 39 per cent employed 1-10 workers, and 13 per cent employed over 100 employees. SMEs with 51-100 employees accounted for 8 per cent of the total participants. Around 61 per cent of the SMEs produced for export, of which 13 per cent exported all of their products. Thirty-nine per cent supplied only domestic markets. Thirty-five per cent had their investments financed by financial service providers such as banks and microfinance institutions, 32 per cent did not use external financing, 29 per cent received grants from development partners, and 18 per cent received financing from domestic investors. The number of SMEs receiving financing from

Table 3: Profiles of Surveyed SMEs

Characteristics of SMEs participated in the survey	N	%
Number of years in operations		
Less than 1 year	1	2
01 - 03 years	10	16
03 - 05 years	17	27
05 - 10 years	15	24
10 - 15 years	12	19
15 + years	7	11
Number of employees		
01 - 10 employees	24	39
11 - 50 employees	25	40
51 - 100 employees	5	8
100+ employees	8	13
Producing for export/international buyers		
Yes, we export all products produced	8	13
Yes, we only export/sell some part of the products internationally	30	48
No, we produce for and sell all products domestically	24	39
Sources of investment		
Domestic investors	11	18
International investors	5	8
Impact investments	3	5
Government grants	4	6
Financial service providers (Banks or MFIs)	22	35
Development partners' grants	18	29
None of the above	20	32

international investors (8 per cent) or impact investors (5 per cent) remains relatively low compared to other sources of financing.

Among the surveyed SMEs, only 73 per cent (45 SMEs) disclosed their annual turnover figures. Of those reporting, 33 per cent (15 SMEs) had an annual turnover of less than USD 250,000, 27 per cent (12 SMEs) had an annual turnover between USD 250,000 and USD 500,000, 9 per cent (4 SMEs) had an annual turnover between USD 500,000 and USD 1,000,000, and 31 per cent (14 SMEs) had an annual turnover exceeding USD 1,000,000.

Figure 3: Annual Turnover of Survey SMEs



No question was asked regarding the compliance with the Ministry of Commerce, the Ministry of Labour and Vocational Training or other specialised authorities. However, the study’s survey was intentionally distributed only to SMEs that had already been officially registered with at least one of these authorities.

4.2.2. Insights into SMEs' ESG awareness and perceptions

This section aims to explore the level of understanding of SMEs have regarding ESG. Table (4) suggests that ESG term is the most popular phrase, with 69 per cent of the SMEs aware of the terms. “Corporate Social Responsibility” and “Ethical Business” are the second and third most known phrases among the surveyed SMEs, accounting for 63 per cent and 55 per cent respectively. The terms such as Inclusive Business, Responsible Investment, Sustainability Reporting and Responsible Business Conduct are less known to the surveyed SMEs. A vast majority of the SMEs became aware of the phrases recently with 40 per cent came to know within the past year and another 39 per cent became aware within the past 3 years (Table 4).

In the follow-up interviews, SMEs interpreted ESG concepts slightly differently from one another; however, they believe ESG would bring a positive impact to businesses, the environment and society, and promote product export among western countries. As one SMEs employee stated “The term ESG is so broad for me, and it is also for other SMEs” (SME1). Another SME owner used the term “inclusive business” (SME2) instead of ESG when explaining her SME’s experiences in adopting ESG related activities. SME leaders with more exposure to higher levels of education are particularly inclined to take ESG actions. For instance, a general manager of SME4 expressed that “I love ESG concepts especially for SMEs. This is from my perspective. It also fits to my background in environmental management that I got my degree in France. I also think that ESG is just a recent development framework that has been adopted.”

Table 4: SMEs' awareness on ESG and related terms

	N	%
SMEs' Awareness on ESG and related terms		
Environment, Social, and Governance (ESG)	43	69%
Corporate Social Responsibility	39	63%
Sustainability Reporting	14	23%
Inclusive Business	26	42%
Responsible Business Conduct (RBC)	13	21%
Ethical Business	34	55%
Responsible Investment	18	29%
Initially became aware of ESG and related concepts		
Less than 1 year	25	40%
Between 1 - 3 years	24	39%
Between 3 - 6 years	10	16%
More than 6 years	3	5%

SMEs were asked to rate their level of familiarity with six different aspects of ESG, including ESG issues, the benefits of ESG for SMEs, the risks of not adopting ESG, the ESG framework for SMEs, and where to get relevant support if they need it. On average, thirty-seven per cent of the SMEs rated their knowledge or familiarity with different ESG aspects as “somewhat familiar,” and 24 per cent claimed that they are least familiar with ESG aspects and 20 per cent other considered not familiar at all with the topics. A similar number of SMEs claimed they are somewhat familiar with the rest of the ESG aspects. Not many SMEs believed that they had sufficient knowledge about ESG, with only 4 per cent of the surveyed SMEs rating themselves in the “most familiar” category for all ESG aspects (Table 5)

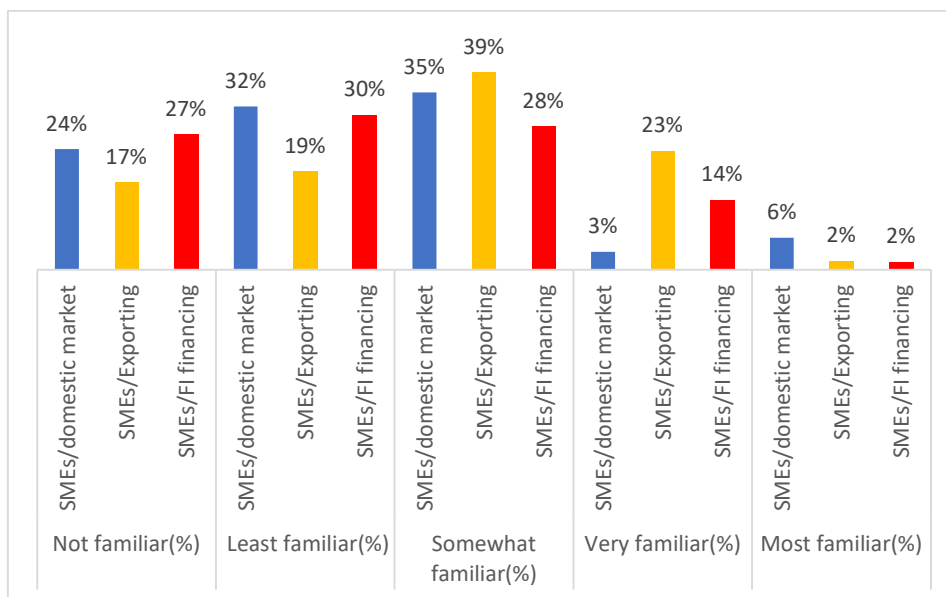
Table 5: How familiar are SMEs with ESG

Different aspects of ESG	Not familiar(%)	Least familiar(%)	Somewhat familiar(%)	Very familiar(%)	Most familiar(%)
Details of ESG issues	11.0%	24.0%	42.0%	16.0%	7.0%
Benefits of ESG for SMEs	15.0%	18.0%	40.0%	23.0%	5.0%
Risks of not adopting ESG	18.0%	27.0%	34.0%	19.0%	2.0%
ESG standards/framework for SMEs	23.0%	24.0%	37.0%	15.0%	2.0%
Challenges to implementing ESG	16.0%	24.0%	40.0%	15.0%	5.0%
Where to get support related to ESG reporting	35.0%	27.0%	29.0%	6.0%	2.0%
Average level of SMEs' familiarity with different ESG aspects	20.0%	24.0%	37.0%	16.0%	4.0%

When comparing SMEs, those involved in export activities demonstrated a significantly higher familiarity with ESG concepts. Twenty-three per cent of exporting SMEs rated themselves as 'very familiar' with ESG matters, compared to just 3 per cent of those solely serving domestic markets. Similarly, 39 per cent of exporting SMEs considered themselves 'somewhat familiar,' while only 35 per cent of domestic-focused SMEs did. Notably, there was no appreciable difference in ESG

knowledge between SMEs producing for domestic markets and those receiving financing from financial institutions.

Figure 4: Familiarity with ESG by SMEs types



The majority of SMEs recognize the significance of ESG factors in their business operations. 55 per cent of SMEs consider ESG to be critical aspect of business success, while 27 per cent regard it as somewhat important. Only a small minority, 15 per cent, remain neutral about the role of ESG, and just 4 per cent deem it unimportant (Table 6). In-depth interviews with SMEs provided further details on how they perceived ESG. As a managing director expressed, "ESG will be important for our business. Its importance lies in long-term sustainability. We are more or less in the startup stage. We have not grown much yet. However, ESG is essential as we are considering long-term plans and sustainability" (SME 2). Another SME owner who is working on bringing his products to the international market [Australia] said the role of ESG is growing in significance for SMEs. "Implementing ESG initiatives is not a burden but important and more of a benefit to one’s business—it actually improves saving and recycling of materials. The marketing team of [my] company is working to make sure that our products are seen as good for health and sources of energy and vitamins" (SME 4).

Table 6: Perceived Importance of ESG

Level of Importance	N	%
Very Important	34	55%
Somewhat Important	17	27%
Neutral	9	15%
Somewhat Unimportant	1	2%
Not Important	1	2%

When asked about the potential benefits that ESG practices would bring to business operations, SMEs were optimistic regarding ESG’s advantages. Sixty-three per cent (n=39) of SMEs surveyed believed that ESG practices would increase their access to finance, improve client relationships, and reduce regulatory risks (Table 7). Additionally, sixty per cent (n=37) believe that adopting ESG would help them improve efficiency, including cost savings related to energy usage. Half of the SME surveyed

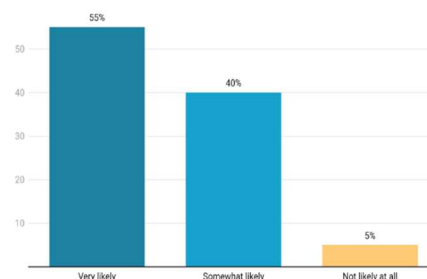
(n=31) indicated that improved ESG practice would lead to greater employee engagement. A small minority, give per cent (n=3), suggested that ESG adoption represent a win-win strategy for all stakeholders, including farmers, benefiting business sustainability objectives, enhancing compliance among SMEs, and improving overall employee well-being.

Given the perceived benefits, most surveyed SMEs viewed ESG practices and reporting as forthcoming. Fifty-five per cent of the respondents reported that their SMEs were very likely to consider ESG practices, and 40 per cent were somewhat likely to adopt ESG. Only five per cent think that their companies were not likely to consider ESG practices and reporting (Figure 5). Despite their positive attitudes toward ESG, SMEs were very aware of the need to strike a balance between survival, profitability, and long-term growth. As SME4 stated, "The requirement of ESG is tough for SMEs to apply while balancing income generation and social and environmental responsibilities. Otherwise, they will not be able to compete with other SMEs."

Table 7: Perceived benefits from ESG adoption

Perceived benefits	N. of respondents	Percentage
Cost savings (e.g., energy efficiency)	37	60%
Improved access to finance	39	63%
Stronger customer relationships	39	63%
Increased employee engagement	31	50%
Reduced regulatory risks	39	63%
Others	3	5%

Figure 5: How likely are SMEs to adopt ESG Practices



4.2.3. How Cambodian SMEs are adopting ESG: trends and approaches

To capture SMEs' experiences with ESG and describe their typical approaches towards implementing ESG initiatives or meeting emerging ESG requirements, the research asked SMEs to report if they have adopted and introduced certain policies aimed at addressing or achieving environmental, social, and governance (ESG) objectives or targets in their business operations. Furthermore, SMEs were asked to share their actual activities they have implemented related to environmental sustainability, employees' and community welfare, and governance structures that may help improve their company's performance and achieve ESG commitments.

Environmental aspects:

Just 48 per cent of the surveyed SME claimed they have environmental policies. Exporting SMEs are more likely to adopt these policies (58 per cent) compared to domestic-focused SMEs (33 per cent). There is no significant difference in environmental policy adoption among SMEs with annual turnovers exceeding \$500,000. However, those receiving financing or grants have slightly higher rates compared to domestic-focused SMEs. While environmental policy adoption is not widespread, a majority of SMEs (76 per cent) have implemented initiatives to address environmental impacts. Notably, SMEs with access to financing or annual turnovers above \$500,000, despite lacking formal policies, are more likely to take such actions (86 per cent and 83 per cent respectively). Agri-food SMEs demonstrate the lowest rates of environmental action.

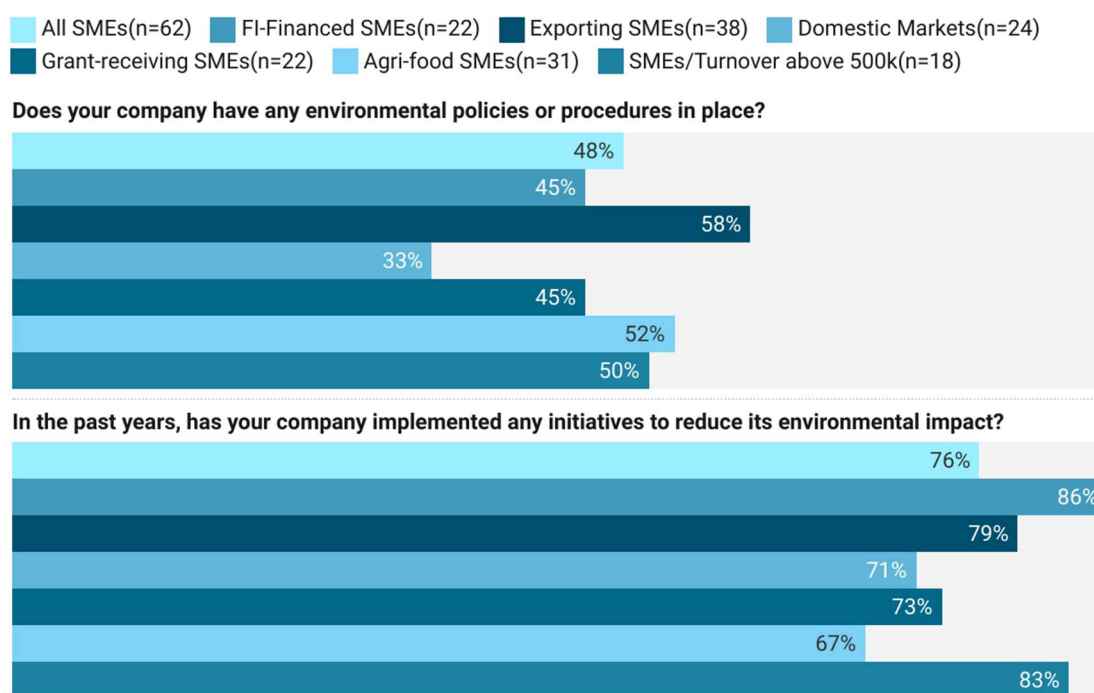
An analysis of the types of environmental initiatives undertaken by the surveyed SMEs reveals that waste reduction and management are the most frequently cited. These SMEs prioritise minimizing waste, enhancing recycling and composting processes, and improving disposal practices. Some SMEs emphasize the use of sustainable materials and practices in their supply chains and made efforts to reduce water consumption. One SME interviewee mentioned that its production team is tasked with

improving waste management (SME 1) while another SME expressed the goal of achieving zero waste production, despite lacking the necessary technical skills and human resources (SME 2).

Energy efficiency and emission reduction emerged as the second most frequent theme in the survey, with enterprises improving firewood efficiency and adopting solar energy. One SME owner stated, “...we prioritised production efficiency and cost reduction through adopting green production techniques and solar energy. As a consequence, the practice helped improve environmental performance targets” (SME 1). Another SME outlined their ESG efforts, “in our company we take care of our environment performances by tracking energy usage, water usage, solar contribution to energy consumption, level of energy emission in each facility, and conduct relevant audits. The environment on rice fields and farms ensures contributions to environmental protection through sustainable agricultural practices. By working with Agricultural Cooperatives (AC), we ensure processes that reduce energy consumption, save resources, and contribute to CO2 equivalent reduction, assessing the recovery period needed.” (SME 3).

Furthermore, SMEs increased employees’ participation in training and environmental initiatives and considered environmental policies to guide their operations. This was evidenced by survey data and field observation. During the site visit to SME4, it was observed that the management was conducting an internal training to staff as they were preparing to obtain BRC certification, which is among the toughest standards to obtain among exporting SMEs.

Figure 6: Current practices related to the environmental pillar



Social aspects

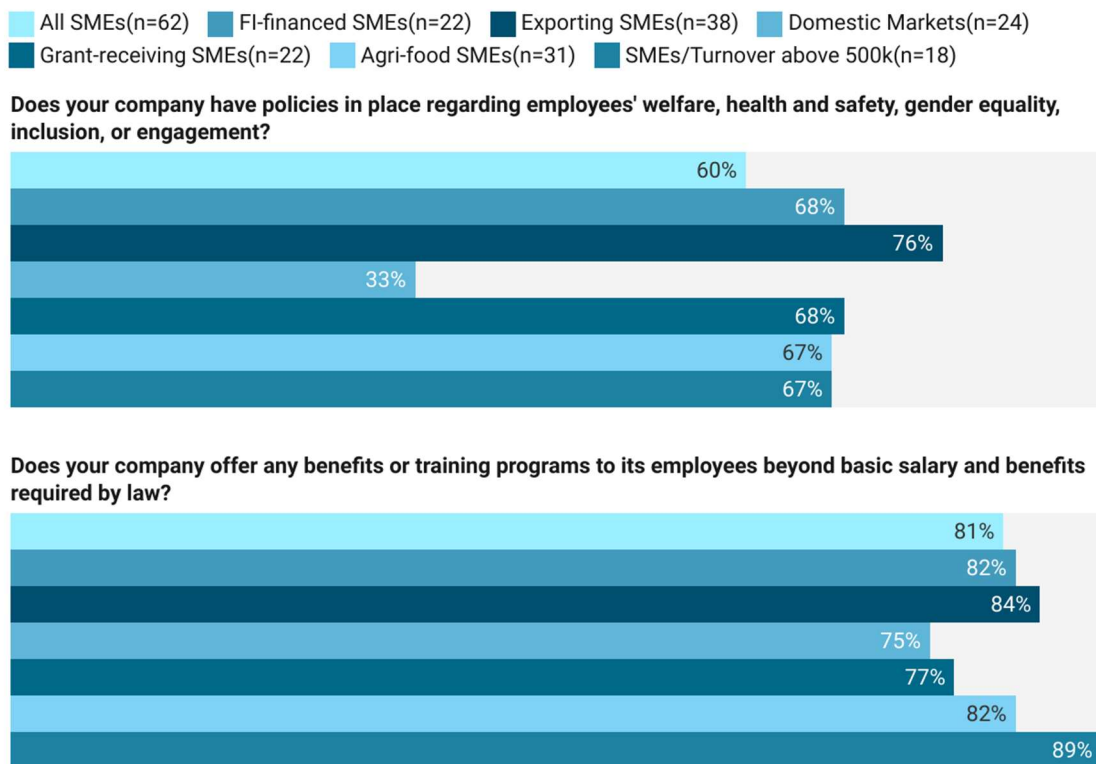
SMEs were more confident in reporting having established policies to promote employees’ welfare, occupational safety and health, gender equality and inclusivity in their workplaces. Overall, more than 60 per cent of the SMEs reported having some sort of employees’ welfare policies in place. Exporting SMEs slightly outperformed the rest of the group, with 76 per cent claiming to have established related policies. On the other end, domestically focused SMEs had the same level of consideration on the

social pillar as they had for environmental considerations, with only 33 per cent of the SMEs reporting having employees' welfare, health, and safety policies (Figure 7).

The data shows there are both policies in written and verbal forms in four thematic areas. The first and most frequently mentioned by the surveyed respondents were policies related to "Employee Welfare", covering health and safety, employee engagement, professional development, and fair wages. As described by the SMEs, "my companies ensure employees are paid according to the national law through applying the minimum wage set for workers employed in the garment sector" (SME 3). Gender equality and inclusion were the second focus, with policies for equal opportunities in recruitment, promotion, remuneration, inclusive workplace practices, women's leadership, and parental entitlements.

SMEs frequently mentioned compliance with labour laws and standards like ISOs, HACCP, and amfori BSCI. One SME owner ensured minimum wage payments, promoted Gender Equality and Social Inclusion (GESI), and contributed social benefits to the national system (SME 3). The owner mentioned "my company invested in people and management system to obtain necessary certifications and standards such as Certified BSCI, Fair Trade, Fair for Life, Occupational Safety and Health (OSH), GMP, ISO 22000, HACCP" (SME 2). CSR activities included community engagement, education, environmental sustainability, and wage management.

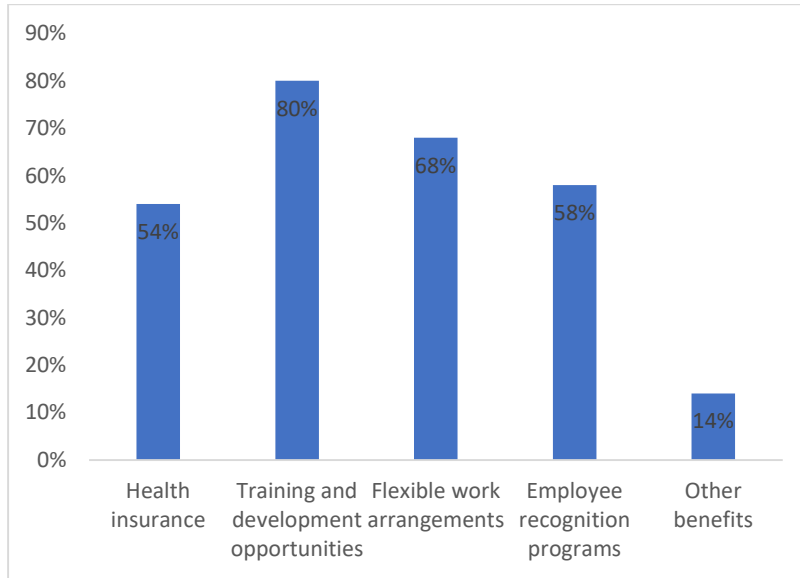
Figure 7: Current practices related to the social pillar



Over 81 per cent of the surveyed SMEs believed that they had contributed significantly to their employees' welfare beyond the statutory requirements, such as NSSF contributions. SMEs with annual turnovers exceeding USD 500,000 were particularly optimistic about their workforce support, offering additional employee benefits and skill enhancement programs. Training and development initiatives were the most frequently cited benefit schemes, with 80 per cent of employers providing these opportunities to their employees. Flexible work arrangements were also highly utilized by employers

(68 per cent) as a benefit provided to workers. Fifty-four per cent of employers provided health insurance coverage to their employees, and 58 per cent implemented employee recognition programmes. Fourteen per cent of the SMEs claimed providing a variety of additional benefits to workers, including discipline enhancement training and foot safety standards training, accommodation and food, and need-based financial support.

Figure 8: Types of additional employee benefits beyond statutory benefits.



The interview showed that SMEs’ ESG-related activities focus on community support, market linkages, and knowledge and technology transfers. As one SME described, “we are committed to be an inclusive business and perceived as a place where farmers can go for support. We secured markets for farmer producers, worked on market linkages, provided technical support for sustainability in the production process. We worked with 50 farmers but our efforts to establish contractual farming has not been successful due to farmer preferences” (SME 2). The same company shared that, “farmers’ livelihood improved as they were able to sell their produce with a higher price through doing business with us”, (SME 2). Another SME prioritised gender equality in recruitment and pay, “the company promoted GEDSI policies in recruitment and wage payment and other social protection measures” (SME 3).

Governance aspects:

This section inquired whether SMEs have clearly defined ownership and management structures, implemented policies regarding responsible business practices, and assigned dedicated staff for sustainability reporting (Figure9).

Seventy-seven per cent of the 62 surveyed SMEs reported having clear ownership and management structures in place for their operations. Among these, exporting SMEs (95 per cent), those with an annual turnover exceeding USD 500,000 (89 per cent), and those receiving financing from financial institutions (86 per cent) demonstrated a higher prevalence of well-established management and ownership structures. In contrast, only 50 per cent of domestically focused SMEs reported establishing clear management structures.

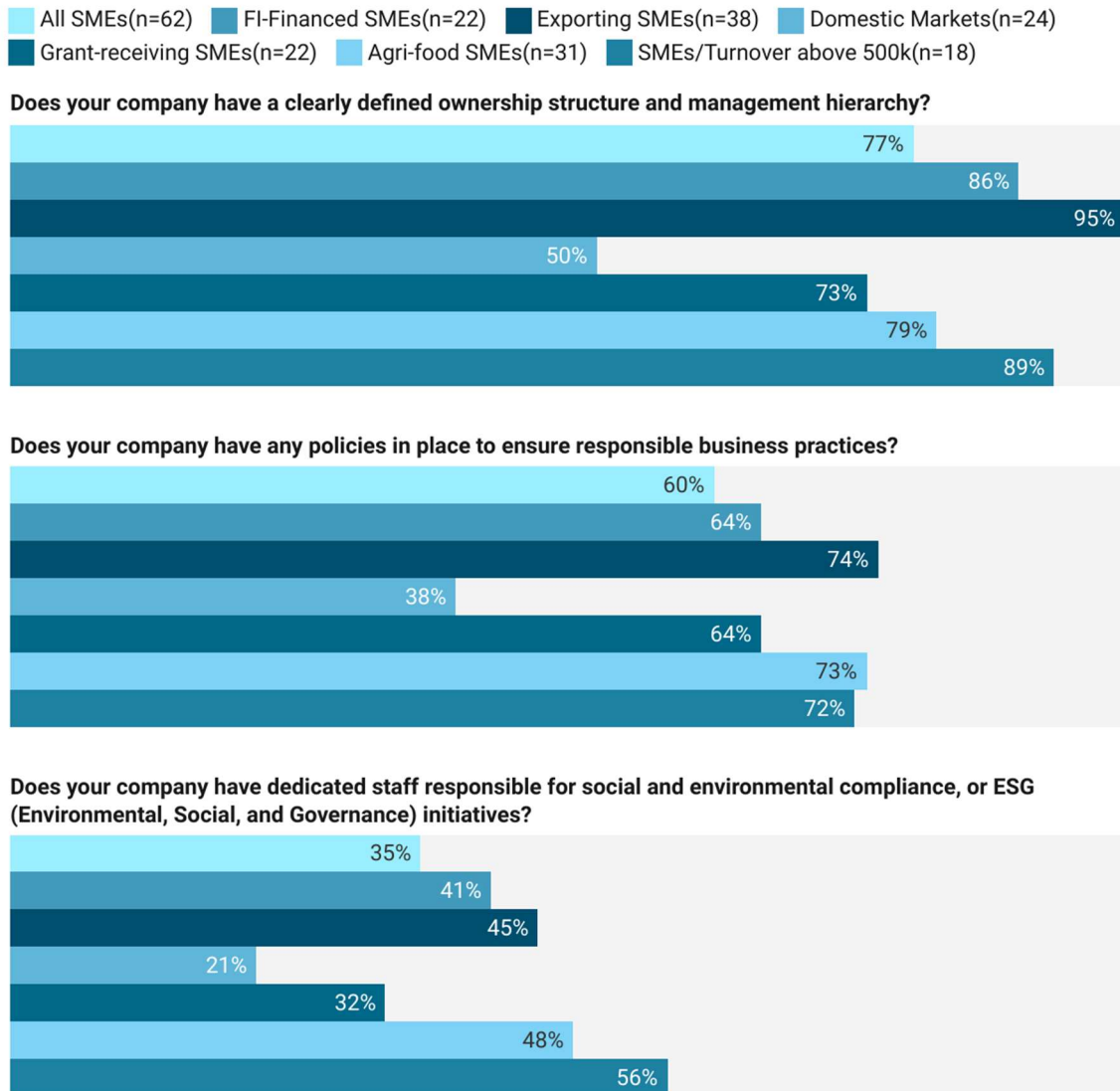
Regarding policies to ensure responsible business conduct, 60 per cent of the surveyed SMEs reported having such policies in place. A higher proportion of exporting SMEs (74 per cent), Agri-food SMEs (73

per cent), and SMEs with an annual turnover exceeding USD 500,000 (72 per cent) reported having responsible business-related policies compared to SMEs producing for domestic markets (38 per cent). Notably, receiving grants or financing from financial institutions did not significantly affect the implementation of responsible business practices, as only 64 per cent of these SMEs had such policies or initiatives.

Respondents revealed that ESG practices are in forms of policy and non-policy initiatives. SMEs adopted policies on HR, finance, health and safety, gender equality, inclusion, operations, and board governance as formal policies. By obtaining relevant standards and certifications such as ISO standards, HACCP, fair trade certification, amfori BSCI, and Codes of Conduct, SMEs established numerous policies to meet the qualification criteria required by these certifications. Non-policy initiatives typically consisted of employee and community engagement activities, such as providing training and capital to farmers, as well as environmental awareness programs.

Only 35 per cent of SMEs had staff responsible for compliance or sustainability implementation. SMEs with annual turnover exceeding USD 500,000 were more likely to have an employee dedicated to ESG practices and reporting (58 per cent), followed by agri-food processing SMEs (48 per cent) and exporting SMEs (45 per cent). Interviews indicate that senior management mostly handled ESG matters. Only one SME had a dedicated staff member for ESG initiatives and reporting.

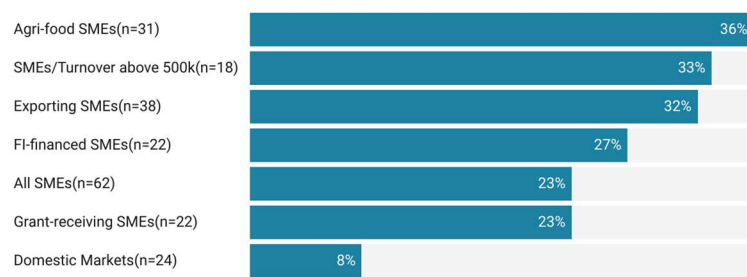
Figure 9: Governance aspects of SMEs



Upon examining the reporting and dissemination of ESG practices and performance outcomes, it was revealed that only 23 per cent of SMEs had engaged in these activities. This figure is notably lower than the proportion of SMEs with established ESG-related policies and initiatives. Agri-food processing SMEs demonstrated a greater propensity to report ESG performance (36 per cent) compared to SMEs with a turnover exceeding USD 500,000 (33 per cent) or exporting SMEs (32 per cent). Only 27 per cent of SMEs receiving financial institution financing, 23 per cent of SMEs overall, and 8 per cent of non-exporting SMEs had shared their ESG-related performance (see Figure 10).

Analysis of ESG materials from the studied SMEs showed they listed certifications and standards along with general ESG commitments. However, no annual or periodic reports specifically on ESG performance were identified.

Figure 10: SMEs who publicly shared ESG practices and performances



Notwithstanding the fact that nearly half (47 per cent) of the surveyed SMEs reported never receiving requests or recommendations from business stakeholders to meet sustainability requirements or ESG initiatives, a considerable proportion did report such requests (Table 8). For instance, 34 per cent of the SMEs were prompted to provide ESG reports by their clients, 24 per cent were required to do so by financial institutions, 18 per cent received requests various stakeholders interested in ESG commitments, and 16 per cent were asked to submit demands related to sustainability and responsible business conduct from their own investors.

Interviews revealed more requests from stakeholders, such as clients, banks, and government or development partner programs. The requirements varied according to their demands. As one SME explained, “Mainly European buyers and some local buyers who deal with international buyers. My clients often ask for their supplier’s information. They want to know if the company has a history of child labor cases, if sufficient operational procedures are in place, the system for monitoring emissions levels, or if the company has established a traceability system” (SME 2). Another SME stated, “Our buyers prefer factories that adopt ESG practices, and certification bodies assist us in assessing our performance and issuing certifications; therefore, buyers recognize our ESG performance” (SME 3).

SMEs described their experiences with requests from financial institutions to meet specific criteria before accessing financing schemes. A SME reported, “[Bank name] approached us to offer support during COVID-19 and recently to assist with business expansion. They presented some social performance indicators, such as supporting farmers or agricultural cooperatives, but no criteria related to environmental targets. We were provided with a template to complete” (SME 2). However, another SME did not see a role of financial institutions in accelerating ESG adoption, stating that, “Banks do not require businesses to demonstrate ESG performance. They only examine the company’s income statement” (SME 1).

Table 8: Do any of the following stakeholders require your company to implement ESG reporting?

No such requests	47%
My buyers/clients ask for ESG reports to ensure that my business practices align with their values and sustainability goals	34%
Banks / lenders / financiers require ESG reports to determine the risk and sustainability of their investment in my company	24%
My shareholders interested in ESG metrics to evaluate the company’s commitment to sustainable and responsible business practices?	18%
My investors demand ESG reporting to assess the long-term viability and ethical standards of my company	16%

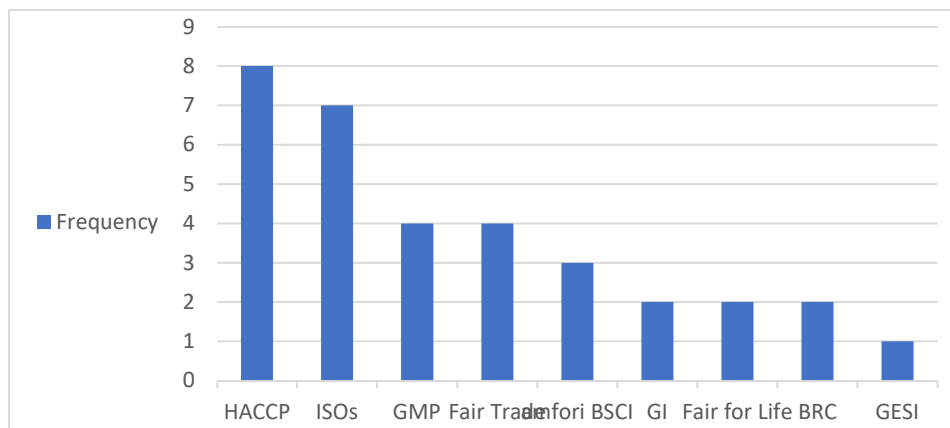
Pursuing standards and certifications as an approach to ESG practices:

Evidence from the survey and interview accounts suggests that ESG concepts remain complex and challenging for many SMEs to fully grasp. ESG reporting demands substantial resources and expertise. To cope with business needs, SMEs concentrate on acquiring specific certifications and standards pertinent to their operations, industry practices, and market access.

The SMEs associate ESG practices with obtaining certifications, which they see as beneficial for recognition, client trust, regulatory compliance, and international market access. Figure 11 indicates that HACCP, GMP, ISO, and Fair Trade were among the most frequently mentioned certifications and standards by SMEs in both the survey and interviews. This emphasis likely stems from the high concentration of agri-food processing SMEs within the study sample.

Certifications like HACCP, ISO 9001, ISO 22000, ISO 14001, and Fair Trade are commonly recognized and frequently requested by buyers, especially in international markets. SMEs prioritizing environmental and social dimensions often focus on obtaining certifications like Geographical Indication (GI), Fair for Life, and adopting the Global Environment Facility's Gender Equality and Social Inclusion (GEDSI) strategy. SMEs reported in interviews that they frequently need to obtain multiple certifications and standards, even though their resources are limited. Some of these requirements may overlap.

Figure 11: Certificates and Standards considered critical by SMEs



4.2.4. Key drivers for adoption

The study asked SMEs to rank the three factors they believed most influential in their decision to adopt ESG practices. Pressure from clients within the supply chain emerged as the paramount driver, with 31 per cent of SMEs identifying it as the most influential factor and 62 per cent ranking it among the top three. Legal mandates imposed by the government were the second most influential factor, with 24 per cent of SMEs deeming it the most influential and 47 per cent placing it among the top three. Access to finance and investments was also considered a significant motivator, with 21 per cent of SMEs ranking it as one of the top three influential factors. Other determinants that SMEs believed could influence the adoption included company-specific strategies, heightened awareness of ESG, technical support, simplified reporting standards, and reduced costs associated with adoption.

In-depth interviews revealed additional drivers for ESG considerations, including ethical commitment, market access, production efficiency, reporting capabilities, and long-term sustainability. SMEs highlighted ethics and loyalty, focusing on providing high-quality and ethically produced products. The commitment to ethics extended to inclusivity, where SMEs strived to ensure that no one was left behind in their business operations. The recognition and understanding of the necessity for change

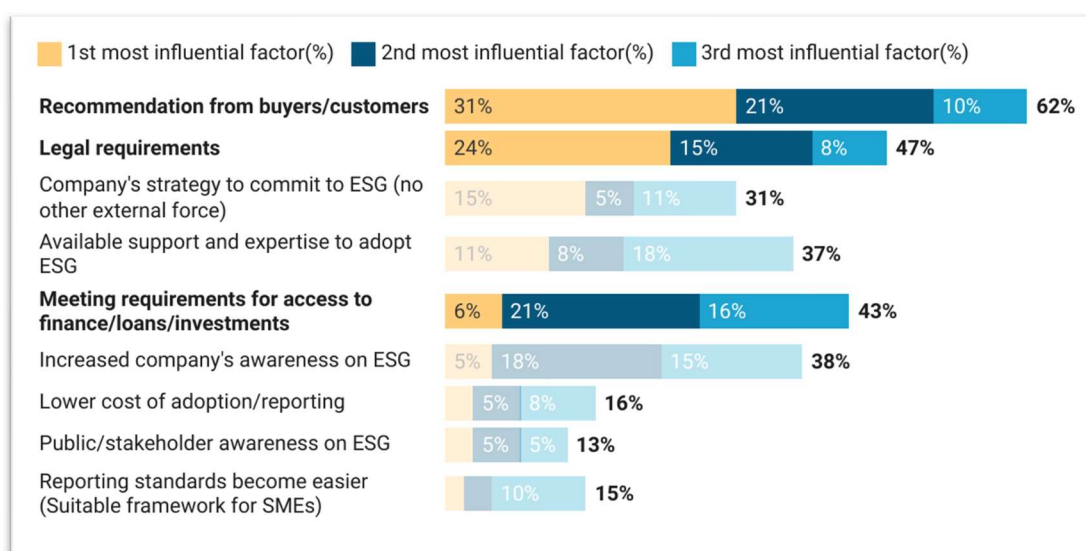
were also notable, as businesses acknowledged the importance of aligning with contemporary ethical standards. As one SME owner stated, "We care about ethics and loyalty, and the quality of products that we offer to our clients" (SME 1). Another key informant mentioned, "Inclusive business is critical—we don't want to leave anyone behind" (SME 2).

Export readiness and access to markets were notable drivers for ESG adoption. The survey data supported this insight, indicating that client requirements were a top motivator. SMEs aimed to prepare for international market entry, particularly targeting European and local buyers involved in international markets. Meeting buyer requirements for compliance and certifications was important for securing market access. This focus on export readiness was accompanied by the need to comply with various market demands, which motivated SMEs to integrate ESG practices into their operations. One SME stated, "Mainly European buyers and some local buyers who deal with international buyers" (SME 1). Another SME emphasized, "Access to market is a necessary factor to influence ESG adoption; and certification like Fair Trade is important for the business" (SME 2).

Production efficiency was frequently mentioned by SMEs. SMEs adopted ESG practices to enhance productivity and reduce costs, particularly by addressing energy waste and implementing efficient production methods such as solar energy. As one SME owner stated, "Energy waste is critical to our business, and we see potential savings benefits in practicing ESG" (SME 1).

The pursuit of long-term sustainability was another key motivator. SMEs aimed to establish sustainable practices that ensured the long-term success of their business operation. This pursuit was often driven by a commitment to food security, nutrition, and the well-being of the community, which are fundamental aspects of ESG practices. As one SME owner stated, "I'm in generation Y. The well-being of the community and farmers' families is important. As our business grows, they should grow as well" (SME 2). The prevention of counterfeit products and the focus on ethical standards further underscored the importance of ESG adoption among SMEs.

Figure 12: Most influential factors influencing SMEs to adopt ESG practices



4.2.5. Challenges faced by Cambodia's SMEs

SMEs face many obstacles in integrating ESG practices and reporting, primarily due to a lack of awareness and expertise. Half of surveyed SMEs cited this as their main challenge, while 16 per cent and 11 per cent identified it as the second and third most important issues, respectively (Figure 10).

Interviewed SMEs considered that limited technical knowledge and access to experts in energy, social compliance, and governance to implement ESG initiatives or meet ESG requirements effectively as their key challenges.

One SME owner pointed out, “Our company does not have enough of the right skills to take care of different aspects of the business, and we don’t have a team to handle ESG requirements” (SME1). Another SME complained, “We lack the right experts to support us in implementing all these ESG requirements” (SME2). SME frequently outsource, incurring significant costs. There is a need for greater ESG awareness and understanding among SMEs. Training is crucial due to high staff turnover. SMEs require support in adopting pragmatic approaches with limited resources, and as such, a balance between ESG objective and profitability is essential.

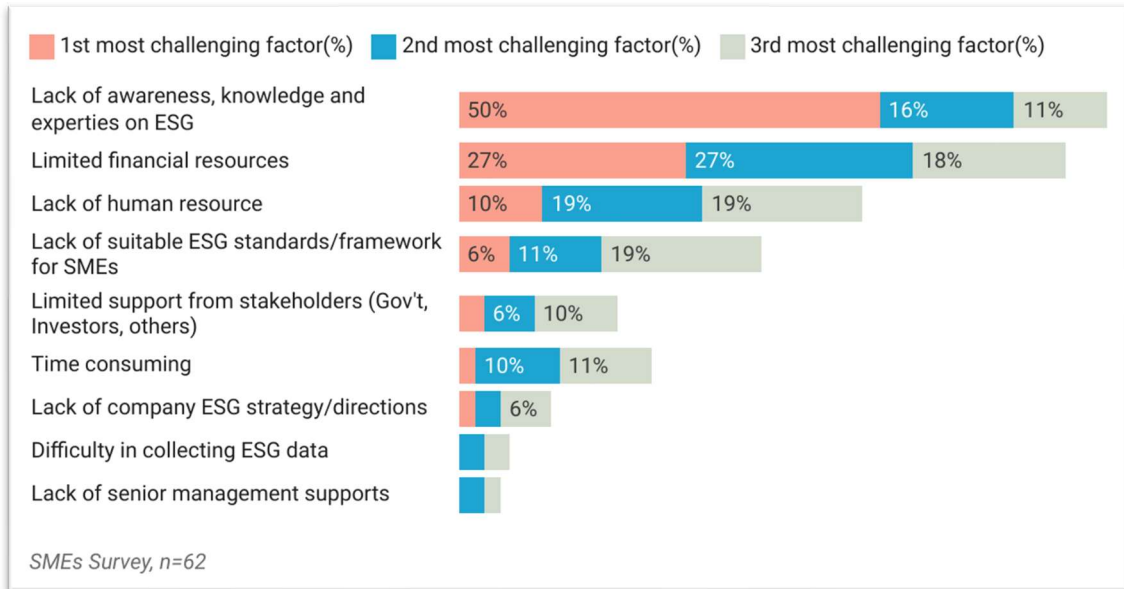
The second most perceived area of challenge for SMEs is resource constraints, such as limited financial resources for investing in responsible human resources when adopting ESG practices. This challenge was cited by 27 percent and 10 percent of respondents, respectively, as their primary challenges. Additionally, approximately 21 percent of SMEs indicated challenges in allocating time to consider or address ESG issues (Figure 10). Significant pressure comes from the high costs of compliance, including investment in related technologies, certifications, and required training.

Interview accounts highlighted administrative and operational challenges, such as managing certifications, audits, and records. Additionally, SMEs faced financial pressures due to ESG requirements, potentially leading to higher prices for their products because of increased production and compliance costs. “Clearly, we need to have a budget for the application of ESG initiatives, capacity building, and technology (blockchain) adoption,” said one SME owner (SME2). An ESG manager assessed his company’s situation, stating, “Resources to adopt ESG are very limited for my company compared to other large corporations [Coca-Cola and Heineken]” (SME3). While there are requests for support to help SMEs to build capacity to adopt some of the ESG practices or obtain certifications, funding, incentives, and grants from governments, investments, and developments have not increased to support this area.

Third, standards and frameworks for ESG reporting can be challenging for SMEs, with 36 percent of SMEs indicating difficulties in finding suitable ESG standards and frameworks tailored to their needs (Figure 10). ESG standards and certifications are often complex and voluminous, making them challenging for SMEs to understand and implement. Simplifying these models can help make them more accessible and manageable. As illustrated by interview accounts: “We don’t have simplified ESG models and standards that are suitable for SMEs. Many SMEs want to practice but they lack understanding. The requirements of the ESG are also tough for SMEs to apply. For example, they need to balance all between income generation and social and environmental aspects; otherwise, they will not be able to compete with other SMEs” (SME4).

Although SMEs in the sample do not perceive management support or corporate strategy as a significant barrier to adoption of ESG practices and reporting, interview accounts revealed that these enterprises encountered considerable challenges in monitoring and reporting ESG data and performances. The ability to document and communicate ESG efforts is crucial, especially to meet buyer requirements for compliance. This underscores the necessity for expertise from ESG specialists who can assist SMEs in producing accurate ESG performance reports. Nevertheless, technological and reporting challenges remain prevalent, with many SMEs still relying on traditional recording-keeping methods and struggling to adopt advanced technologies. Interviewees indicated that ESG integration imposes additional regulatory and trade barriers to SMEs in Cambodia, compelling many to grapple with compliance requirements and heightened competition.

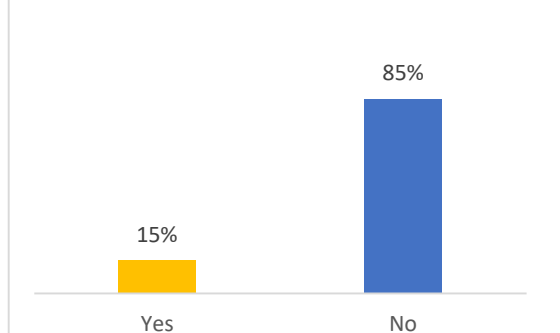
Figure 12: Top three challenges



4.2.6. ESG support ecosystem for SMEs in Cambodia

Cambodia's SME and Entrepreneurship ecosystem provides limited support and opportunities for learning about or adopting ESG practices. Eight out of ten SMEs surveyed lacked information on obtaining ESG support (Figure 13). Existing support systems were patchy; however, they include government initiatives, employers' associations, non-profit organisations, and impact-oriented investors.

Figure 13: Whether SMEs know where to access support



Government's led initiatives (non-regulation):

Although there may not be a specific, targeted effort to enhance the profile of ESG practices in the country, various government departments have introduced initiatives pertinent to ESG. For instance, the Ministry of Industry, Science, Technology, and Innovation (MISTI) has established an annual Green Industry Award Programme. This programme seeks to recognize, motivate, and reward companies committed to improving efficiency, adopting green technologies, fostering sustainable growth, and enhancing climate resilience. This award is available to enterprises of all sizes (MISTI, 2024). Another significant initiative is the Suppliers Database with Sustainability Dimensions (SD2), hosted by the Cambodia Development Council (CDC) since 2021. This platform has garnered participation from 43 companies, predominantly from the manufacturing and food processing sectors.

Employer associations' initiatives:

Despite a growing focus on ESG, Cambodian employer associations have not prioritized these interventions. The most notable initiative is from the European Chamber of Commerce in Cambodia (EuroCham), which has established a Responsible Business Hub to address the rising HREDD and sustainability reporting regulations in major markets, such as the EU and the US. This includes the German Supply Chain Due Diligence Act, taking effect from 2023, the EU Corporate Sustainability Reporting Directive (CSRD), requiring firms to disclose sustainability reporting from 2024, EU Corporate Sustainability Due Diligence Directive, which came into effect in early 2023 (GIZ, 2024a). The hub offered advisory services to exporting enterprises through publishing a series of export guides for Cambodian SMEs and organised training sessions on ESG topics, facilitating stakeholder dialogues to enhance awareness of human rights and environmental due diligence and sustainability reporting (Botineau, 2022). The Young Entrepreneurs Association of Cambodia, with over 600 member enterprises, mainly SMEs, focuses on enhancing members' capacity for governance and compliance. However, there were very few initiatives to improve the handling of ESG matters at the time of data collection.

Impact investment initiatives:

The research noted efforts by impact-driven venture builders in Cambodia to support growth-stage enterprises, making them more impact-focused and ready for international impact investors. These programs invest in enterprises beyond ESG reporting or certification to foster impact-driven growth and attract foreign investments. While no specific ESG frameworks and standards are being adopted, ESG targets were aligned with the business context and guided by the UN SDGs were identified and set. As a leader of the impact venture building, put it,

“No ESG standard was adopted, but UN SDG as a framework and guiding principles to help build impact strategies for companies. We sent staff members to support enterprises, and they helped the companies to explore and identify impact indicators, reflecting the needs of investors. Impact indicators can include the number of people trained and employed; the number of farmers benefited from the business, and the amount of energy saved” (Impact Venture Builder).

Civil society organisations and development partners:

Reviews of existing work and information obtained by the research team suggested that civil society organisations have been active in the area of inclusive business and ESG development in Cambodia compared to other actors. They have contributed through evidence building. One of the most noticeable initiatives was a coalition of civil society organisations working to minimize impact of investments, financial institutions, and insurance firms on human rights, the environments and climate change, began to work substantially on the topic by conducting assessment on the ESG performance of Cambodia's Financial Institutions and analysed ESG performances of gold mining companies, resulted in policy brief developed to provide recommendation strengthen ESG practices of the sectors (NGO Forum 2023).

This study observed more CSO-led public dialogues and initiatives on this topic. To name a few, Oxfam Cambodia collaborated with the Young Entrepreneur Association of Cambodia to stage a “Sustainable Business Forum” in June 2023, which recognised the need to establish a Sustainable Business Platform to further advance responsible business practices in the country (OXFAM, 2023). A Sustainable Business Alliance was launched in December 2024 by a partnership between Oxfam Cambodia and Oxfam and Konrad Adenauer Stiftung to foster responsible business practices of SMEs in Cambodia (Konrad 2024). Another most related event was the multi-stakeholder dialogue on ESG in August 2024,

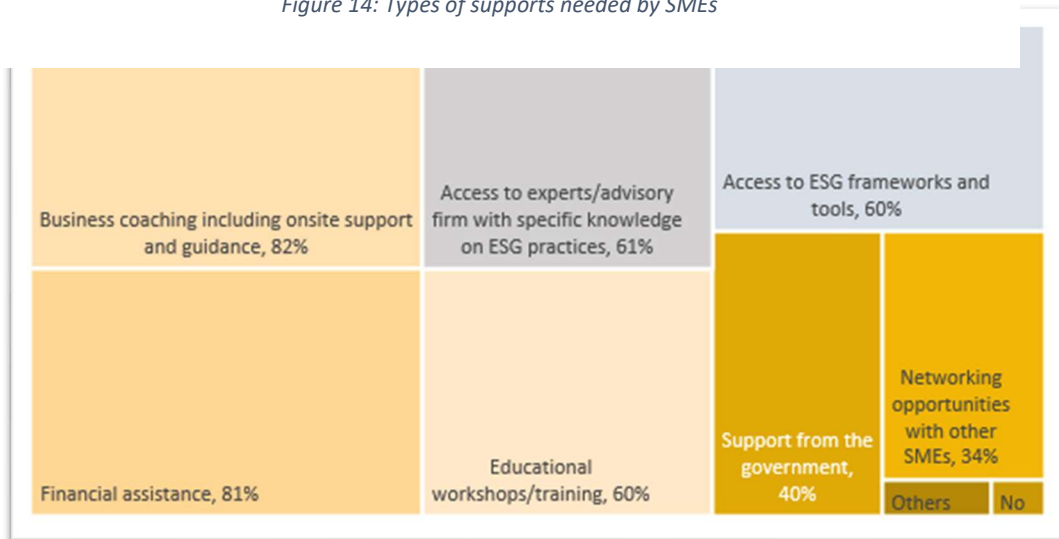
organised by Open Development Cambodia Organisation. The event clarified the conceptual understanding of ESG among stakeholders and discovered potential areas of challenges that need to be addressed in order to move this agenda forward (ODC 2024). Other development partners approached the subject of sustainability and ESGs in a slightly different strategy. Namely, GIZ’s Fabric project worked extensively to raised relevant stakeholders’ understanding on the issues including the publication of a series of sustainability papers(GIZ, 2024a); and EU-German Global Access and Trade Expertise provided capacity support to companies to comply with International Quality Standard Certification (IQSC) and buyers’ requirements such as ISO, HACCP and GMP so that they can export to major international markets in ASEAN, EU, China or USA (GIZ, 2024b).

Areas of support expressed by SMEs

SMEs need support to adopt sustainability practices and reporting. Over 80 per cent of respondents cited onsite coaching and financial support for ESG projects as their main needs. As one SMEs put “we lack expertise related to energy, social compliance and governance, thus more training support are crucial for SMEs” (SME3). SMEs specifically preferred financial support for piloting ESG interventions, certifications, employee training or ESG auditing. “We also need to grant support for ESG directly from RGC” (SME2). The managing director of SME4 mentioned the need for increased funding, grants, incentives and encouraging policies to support SMEs to cope with this new challenge.

Sixty-one per cent of SMEs needs support from experts and advisory firms with established experience in assisting SMEs to navigate ESG challenges. “We need consultants with expertise to support us. We need training with practical tools to support us on ESG” (SME2). A similar percentage of SMEs (60 percent) viewed that having suitable ESG framework and measurement tools and dedicated training opportunities organised may support this process. Less frequently mentioned were the government’s initiatives on ESG and networking opportunities with peer SMEs, which were cited by 40 per cent and 34 per cent of the respondents respectively.

Figure 14: Types of supports needed by SMEs



5. Discussion

Cambodia currently lacks a dedicated regulatory framework specifically governing ESG implementation and reporting. However, several legal instruments address various aspects of ESG, though they often lack clarity and cohesiveness. These findings are in line with recent findings by Vannarith (2021) and Sam (2023).

Enforcement of these regulations, reviewed in this study, is limited, and there is a notable absence of reporting requirements. The government has expressed its commitment to fostering environmental and social responsibility within businesses by implementing policy frameworks and incentive programs. In terms of the environmental pillar, numerous laws and legislations, including soft laws and policies, focus on protecting the environment and natural resources, such as the Environmental Code (2023) the Cambodia Climate Change Strategic Plan (2014-2023), and the National Environment Strategy and Action Plan (2016-2023). Regarding the social pillar, key regulations cover labor rights and social protection, such as the 1997 Labour Law and the 2019 Law on the Social Security Scheme. Additional laws like the Law on Consumer Protection (2022) and the Law on Food Safety (2022) aim to safeguard consumer rights and ensure food safety. On the governance pillar, several laws govern enterprise governance, including the Law on Commercial Enterprises (2005) and the Prakas on Corporate Governance for Public Listed Enterprises (2010). SMEs are required to adhere to various business registration and licensing regulations. The Law on Standards of Cambodia (2020) mandates that SMEs meet regulatory requirements and obtain Standard Certificates to ensure competitiveness. There is a call for Cambodia to refine its regulatory landscape in light of the growing global importance of ESG.

SMEs' understanding of ESG is limited but has improved recently, with nearly half learning about it in the past year. Although 69 per cent of the surveyed SMEs reported awareness of ESG, a similar proportion was familiar with terms such as Corporate Social Responsibility and Ethical Business. Most SMEs are less familiar with the pillars of ESG, its risks and benefits, reporting standards, challenges, and where to get support. While these findings are consistent with the work of Markopoulos, Al Katheeri and Al Qayed (2023) and Garrido-Ruso et al. (2024), findings from this research suggest the role of SMEs' characteristics in increasing exposure to ESG learning. For instance, there is a striking difference in the level of understanding between domestically focused SMEs and exporting SMEs, with only 3 per cent of the former reporting being "very familiar" with different aspects of ESG compared to 23 percent of the latter. SMEs that obtained financing from financial institutions demonstrated an equal level of understanding (2 per cent) as those focusing on domestic markets. This indicates that the financial sector's influence on driving ESG adoption has not significantly impacted SMEs.

ESG concepts are interpreted differently, but most SMEs tend to agree that ESG impacts their business operations, citing sustainability and international market access. SMEs believe ESG adoption will increase finance access, improve client relationships, ensure legal compliance, create operational efficiency through energy savings, and attract employees. The recognition has led many SMEs to consider learning and adopting ESG practices, with 55 per cent being "very likely" and 40 per cent "somewhat likely" to take action on ESG.

ESG adoption among the studied SMEs is in its early stages, varies widely, and often differs from expectations in the literature and reporting standards. However, the findings showed that the actual level of ESG adoption appears to be happening at least at the firm level, which provide additional insight to Amalia-Elena's (2020) finding that Cambodia had little to no ESG policies. On the environmental pillar, this study found that the adoption of the environmental-related policies and strategies as part of the ESG journey remains less common among SMEs. Those concerned with

exporting their products (58 per cent) tend to report having developed such policies. SME owners (76 per cent) have taken steps to adapt their business processes, such as waste reduction techniques, use of recycling materials, energy efficiency, emission reduction, conducting environmental audits, providing support to farmers, and employee training.

SMEs are increasingly establishing policies affecting the social pillar of ESG, with over 60 per cent reporting the adoption of policies related to human resource management, employee welfare, occupational safety and health, gender equality, and workplace diversity and inclusion. To obtain internationally recognized standards and certifications, SMEs first comply with local laws, including minimum wage, NSSF contributions, and other mandates. These requirements include paying employees according to minimum wage laws, covering employees' National Social Security Fund (NSSF) contributions, and meeting other mandates from relevant authorities. Beyond this, they offer skill training, support producer communities through market linkages and knowledge transfers, and engage in CSR activities like community engagement and environmental awareness.

In Cambodia, although benchmarks regarding the governance levels of SMEs are absent, the current legal framework ensures companies set up a minimum governance structure, particularly those that have formalized their business activities and obtained permits and standard certificates from relevant authorities. This study found that over 77 per cent of SMEs reported having clear ownership and management structures established. The percentage is significantly higher among exporting SMEs, reaching 95 per cent. While fewer companies (60 per cent) reported having policies on responsible business practices, only 35 per cent of SMEs had staff assigned to take care of ESG initiatives. Interviews revealed that the ESG-responsible person tends to be the managing director, CEO, or owner of the companies. 56 per cent of SMEs with an annual turnover exceeding USD 500,000 confirmed that financial resources impact their ability to hire ESG staff

The commonly known international frameworks and standards for Environmental, Social, and Governance (ESG) practices and reporting discussed in the literature of this paper are largely absent in Cambodia's SMEs contexts. However, the most common forms of ESG practices perceived by SMEs in this study primarily involve acquiring international certifications, such as Hazard Analysis Critical Control Point (HACCP), International Organization for Standardization (ISO), Geographical Indications (GI), Fair Trade, or Good Manufacturing Practices (GMP). These certifications enhance companies' ESG practices and are necessary for exporting products. SMEs often receive assistance in setting impact targets specific to their business, using frameworks like the United Nations' Sustainable Development Goals (SDGs). In spite of this, the absence of an ESG framework for SMEs remains an issue in many countries, including Cambodia. SMEs do publicly disclose their ESG-related activities; however, this is done voluntarily and lacks consistency across different SMEs.

SMEs adopt ESG practices and reporting due to both external and internal factors. External pressure, including client demands, meeting requirements for accessing to international markets, and emerging transnational and national regulations, influences SMEs to take ESG actions in various forms. While 62 per cent of the SMEs perceived buyers' requirements as influencing factors for adoption and at least 34 per cent of SMEs had actually experienced receiving requests from their respective buyers with regard to ESG performance. Evidence from Cambodia's SMEs aligns with existing literature, which agree that the following drivers influence ESG adoption: increased transnational regulations, access to finance, supply chain pressures, and business opportunities and support of lead firms (Bossut et al., 202; E. Stek & Nungsari, 2023; Knihová & Jílková, 2023; and Tomboles 2023).

The pressure from external factors is increasing, while internal aspects like the ethical commitments of SME owners and their concern about product integrity also influence SMEs to produce quality

products and maintain sustainable business practices. The emphasis on long-term sustainability reflects SMEs' commitment to community well-being and environmental objectives. Production efficiency and cost reduction further incentivize SMEs to adopt ESG practices, demonstrating the tangible benefits of these initiatives.

Overall, the key drivers of ESG adoption among Cambodian SMEs are interconnected, reflecting a blend of ethical, financial, and operational motivations. The pursuit of ESG practices is not only a response to external pressures but also a strategic choice for long-term business success, ethical commitments of the owners and positive social impact. The role of access to finance in driving ESG adoption somehow remains limited despite a few SMEs mentioning its existence and the fact that access to finance is considered as a key driver for ESG adoption by literature (Kuteesa et al 2024; Drobetz et al., 2024; and Tomboles, 2023). SMEs' intrinsic values have a significant role to play, reflecting a distinctive pattern from what was found in the literature; however, this appears to be consistent with argument made by earlier work on the role of CSR in SMEs such as Kechiche and Soparnot (2012).

SMEs in Cambodia face several challenges in adopting ESG, such as limited technical knowledge, financial constraints, and insufficient human resources. Larger firms with more employees and higher turnover are better equipped to handle these requirements compared to smaller SMEs. These challenges they faced are primarily internal and pertain to the operations of SMEs. Additionally, SMEs perceive the need to start adopting ESG practices and reporting as adding another layer of challenges from a market competition perspective, as such requirements are likely to impose barriers on them. Limited understanding among SMEs regarding ESG concepts and the resources required to support SMEs in navigating this journey underscores the need to clarify frameworks and evaluate the practicalities of ESG standards. Addressing these challenges necessitates that SMEs establish a balance between ESG objectives and profitability. This requires aligning ESG practices with business processes and models within the context of limited resources and expertise.

A concerted effort to simplify ESG framework, provide training and support, and offer financial incentives to ease the burden on SMEs should be among the top priorities of interventions. SMEs themselves are required to take a leading role in this journey. Considering the financial advantages, SMEs should not cite a lack of resources and capacity as a reason to refrain from reporting and benefiting from their ESG performance, as stated by Fenwick et al (2022).

While the majority of SMEs acknowledge the need for support in comprehending and adopting ESG practices, the current support system for SMEs remains notably limited. Encouragingly, there are signs of an increasing number of support initiatives related to ESG, inclusive business practices, and impact-driven enterprises by key stakeholders, including the government, employer associations, development partners, impact investors, the financial sector, and civil society organizations. Despite various initiatives, there is no assurance they will benefit SMEs. Stakeholders may focus on their own ESG priorities, such as improving practices within the financial sector, targeting specific environmental goals, or favoring larger enterprises. Initiatives aimed at developing local capacities to help SMEs obtain internationally recognized standards and certifications, such as ISO9001, GMP, or HACCP, are more likely to benefit SMEs in meeting short-term goals. However, a different approach is required to support SMEs in achieving a more comprehensive ESG adoption. This study identifies several key priorities to advance ESG practices among SMEs. These include onsite business coaching, financial assistance for ESG adoption, access to a network of experts, the establishment of a commonly accepted ESG framework and lighter reporting systems/tools for SMEs, regular learning and training opportunities, and government support initiatives.

This study offers a sectoral overview of how SMEs in Cambodia pursue ESG objectives, primarily driven by export demands. Nevertheless, the research was unable to offer in-depth accounts of how SMEs choose their ESG priorities (pillars and how they meet reporting requirements from stakeholders). Future research should aim to address these critical knowledge gaps by focusing on SMEs' approaches to tackling specific pillars of ESG. Moreover, the scope of this study did not include data on buyers' perspectives regarding their sourcing experiences from Cambodian SMEs, key ESG requirements, and their roles in supporting SMEs to understand and meet these requirements. Addressing these limitations will require targeted research efforts to gather comprehensive insights into the ESG practices of SMEs, their interactions with buyers, and the support systems necessary to facilitate effective ESG adoption.

6. Concluding remarks

This study explores ESG practices among Cambodian SMEs, focusing on their awareness, adoption, challenges, and drivers. It aims to offer insights into integrating ESG principles in these businesses and identify ways to support them. The findings reveal:

- ESG considerations and the adoption of related practices are increasingly important among Cambodian SMEs, particularly those exporting to international markets. These practices enable them to effectively integrate into global value chains and achieve sustainable growth. There is a consistent expectation among SMEs and stakeholders that ESG requirements imposed upon SMEs are on the rise in Cambodia.
- Cambodia does not have specific ESG regulations, but its legal system addresses many ESG-related aspects, ensuring firms comply with ESG expectations and requirements. Resource-constrained SMEs struggle to meet multiple legal ESG requirements simultaneously.
- Cambodian SMEs show different levels of ESG awareness, with exporters being more familiar than those focused on domestic markets. Owners see ESG practices as beneficial for client relationship, market access, regulatory risk mitigation, financing opportunities, and operational efficiency. As a result, over half of surveyed SMEs are likely to adopt ESG-related initiatives.
- Cambodia's SMEs have adopted and implemented ESG-related policies and initiatives, but the extent of adoption varies due to their characteristics. This study did not find specific ESG frameworks used by SMEs, despite existing studies indicating their presence.
- The common approach employed by SMEs to comply with ESG requirements involves obtaining specific certifications and standards that facilitate meeting client demand and export regulation. Approximately 23 per cent of SMEs have reported or disseminate their ESG performance matrix to clients and investors or made their ESG commitments publicly accessible through their website.
- The surveyed SMEs rated their ESG-related initiatives and commitments positively, with many introducing policies and non-policy actions. Though fewer SMEs have environmental policies, many addresses environmental impacts like waste reduction and energy efficiency. Over 60 per cent of SMEs have policies to promote employee welfare, occupational safety, gender equality, and inclusivity. Most have established clear ownership and management structures, claiming responsible business practices. SMEs with annual turnovers over USD 500,000 are more likely to have dedicated ESG staff.
- Cambodian SMEs identified client demands, legal requirements, and investor finance as the key driver for ESG initiatives. While survey data emphasised the importance of access to finance, interviews suggested that it plays a minimum role. Additionally, other significant

factors that drive ESG practices include export orientation, market access, ethical commitments, production efficiency, and the ability to meet ESG standards.

- SMEs are optimistic about the opportunities that ESG adoption brings; however, they anticipate multiple challenges in navigating their ESG journey while balancing their financial objectives. The primary challenge lies in their limited knowledge and understanding of ESG frameworks and requirements. Additionally, limited financial and human resources make it difficult to address ESG frameworks and requirements, posing the second most critical obstacle. Findings suggested that SMEs with larger numbers of employees and higher annual turnover are more likely to adapt better to this new challenge. The third challenge is the complexity, volume, and demanding nature of existing ESG frameworks for SMEs, which leave many feeling overwhelmed and reluctant to act.
- Cambodia's ESG adoption support includes government, employer associations, impact investments, and civil groups. However, these supports are limited, lack clear direction, and are not strategically prioritized.
- Therefore, strategic measures are urgently needed to support SMEs in overcoming barriers. A multi-stakeholder approach involving government entities, private sector players, and international development partners is essential. This includes financial assistance, tailored training programs, and simplified compliance processes to help SMEs meet ESG standards and reporting requirements while maintaining compliance with domestic regulations. Capacity-building initiatives will equip SMEs with the necessary technical knowledge and skills to effective ESG adoption. Collaborative efforts to develop practical ESG frameworks and tools can promote engagement and compliance among Cambodian SMEs. Moreover, fostering a culture of sustainability within SMEs through continuous education and awareness-raising campaigns can help integrate ESG principles into their core business strategies. Future research can provide a more nuanced and comprehensive understanding of ESG adoption among SMEs, contributing to the development of effective strategies and policies to support SMEs in their sustainability efforts.

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AnnexES

Annex 1 – Profiles of research participants and SMEs

Table 9: Profiles of Survey's Respondents

Profile	N	%
Gender		
Male	35	56%
Female	27	44%
Years with company		
Less than 1 year	1	2%
01 - 02 years	1	2%
02 - 05 years	28	45%
05 - 10 years	18	29%
10 - 15 years	9	15%
15 + years	5	8%
Role in the company		
Owner/founder	42	68%
Managing Director/CEO	11	18%
HR/Finance Manager	2	3%
Compliance/ESG Officer	0	0%
Others (Head of risk, Head of sale, Manager, Project Manager, Assistant CEO)	7	11%

Table 10: Types of Industry

Types of Industry	# of SMEs	%
Agri-food manufacturing/processing (Agri-produce, meat, fish, noodle, etc)	33	53%
Wholesale and/or retail trade	9	15%
Accommodation and food service activities	2	3%
Mining and quarrying	1	2%
Manufacturer of textile, apparel, travel goods, and footwear	1	2%
Electricity, gas, steam and air conditioning supply	1	2%
Transportation, storage, and logistic	1	2%
Others (FI, services, farming...)	14	23%

Table 11: Key informants in In-Depth Interview

N	Organisation/c ompanies	Role	Gender	Industry/Products	Format of interview
01	SME1	Owner	Male	Agri-processing / domestic market focus	In person + study visit to SME compound
02	SME2	Co-founder and Managing Director	Female	Salt production	Virtual interview Factory visit
03	SME3	ESG Manager	Male	Rice Production	Virtual interview
04	SME4	Managing Director	Male	Processed mango and pineapple	Virtual interview Factory visit
05	SME4	Employee	Female	Processed mango and pineapple	In-person Factory visit
06	Employers' Association1	Executive Director	Male	General SMEs	In person
07	Employers' Association2	General Manager	Male	Financial Sector	In person
08	Employers' Association3	President	Male	Farmers/producers Cooperatives	In Person
09	Government Official 1	Head Department of	Male	SMEs Sector	Virtual interview
10	Government Official 2	Policy maker	Male	Digital economy	In person
11	Impact Venture Builder	Executive Director	Male	Impact builder venture	In person
12	CSO1	Programme Manager	Female	SME and inclusive business	Virtual interview
13	CSO2	Programme Manager	Male	Responsible finance	Virtual interview

Annex 1 – List standards and certification system commonly obtained by SMEs

Table 12: List and definition of standards and certification mentioned by SMEs

Certificates/Standards	Definition	Purposes
amfori Business Social Compliance Initiative	A global system developed to improve social performance in supply chains. It provides companies with tools, frameworks, and auditing mechanisms, to ensure ethical labor practices.	To support companies in ensuring ethical and sustainable practices throughout their supply chains.
HACCP (Hazard Analysis and Critical Control Points)	A systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes.	To ensure that food products are safe for consumption by identifying and controlling potential hazards.
GMP (Good Manufacturing Practice)	A system that ensures products are consistently produced and controlled according to quality standards.	To ensure that products are safe and of high quality, covering all aspects of production.
Fair Trade Certification (working with Eco-Cert)	A certification that ensures products meet rigorous social, environmental, and economic standards.	To support sustainable livelihoods for farmers and workers, protect the environment, and empower communities.
Geographical Indication Protection (GI)	A form of intellectual property that identifies a product as originating from a specific place.	To protect the unique qualities and reputation of products linked to their geographic origin.
Certified BCSI (Business Social Compliance Initiative)	An initiative aimed at improving working conditions in the global supply chain.	To provide a framework for monitoring, evaluating, and improving workplace conditions and social compliance.
Fair for Life	A certification program for fair trade and responsible supply chains.	To ensure fair and respectful treatment of workers, fair trade practices, and sustainable farming and production methods.
GESI (Gender Equality and Social Inclusion)	Practices and standards that promote gender equality and the inclusion of marginalized groups.	To ensure equal opportunities and treatment for all individuals, regardless of gender or social background.
BRC (British Retail Consortium)	A standard for food safety, quality, and operational criteria within food manufacturing.	To ensure that products are safe, legal, and of high quality, and to facilitate compliance with regulatory requirements.
ISO 9001	An international standard for Quality Management Systems (QMS).	To ensure that organizations meet the needs of customers and other stakeholders while complying with statutory and regulatory requirements.
ISO 22000	An international standard that defines the requirements of a food safety management system.	To ensure safe food production from farm to fork and harmonize food safety management globally.
ISO 45001	An international standard for Occupational Health and Safety Management Systems.	To provide a framework to improve employee safety, reduce workplace risks, and create better, safer working conditions.
ISO 20400	A standard for Sustainable Procurement. (Possible typo, check ISO 20400)	To guide organizations in integrating sustainability into their procurement processes.

Annex II - Survey questionnaires

12/28/24, 3:14 PM Survey on Environmental, Social, and Governance Adoption of SMEs in Cambodia កម្រងសំណួរស្រាវជ្រាវស្តីពីការចាប់យកការប្រតិបត្តិ

Survey on Environmental, Social, and Governance Adoption of SMEs in Cambodia កម្រងសំណួរស្រាវជ្រាវស្តីពីការចាប់យកការប្រតិបត្តិបទដ្ឋានបរិស្ថាន សង្គម និងអភិបាលកិច្ច របស់សហគ្រាសធុនតូច និងមធ្យមនៅកម្ពុជា

Introduction
Greetings Sir/Madam,

We would like to ask you to participate in our research study to understand the trends and challenges of Cambodian Small and Medium Enterprises' (SMEs) in their adoption of Environmental, Social, and Governance (ESG) practices. This research project is funded by the Australia Awards Cambodia aiming to develop research capacity of Cambodian professionals graduated from Australian Universities and contribute to address socio-economic development challenges of the country. This particular research aims 1) to contribute to the literature on ESG adoption among SMEs in developing markets by investigating trends, drivers, and challenges of Cambodia's SMEs in navigating their ESG journeys; and to generate evidence that could inform relevant policy/programme interventions to prepare and support SMEs to implement ESG practices and reporting in the country.

Your participation is voluntary. There are no right or wrong answers. We just want to hear your perspectives, thoughts and experiences on the topic. This survey should take approximately 20 minutes to complete.

Your responses will be strictly confidential and used solely for research purposes. Any summary interview content or direct quotations from the interview that are made available will be anonymized so that you cannot be identified.

Should you have any inquiry, please approach our research team by contacting one of the research team members below:

1. Virak Nuon, viraknuon@yahoo.com or phone/telegram: :078237993.
2. Sophorn Ngy, ngysophorn@yahoo.com or phone/telegram: 017570752
3. Sopheak Sok, sopheaksok.personal@gmail.com or phone/telegram: 010261128

Do you consent to participate in this survey?

1. Yes

2. No

12/28/24, 3:14 PM Survey on Environmental, Social, and Governance Adoption of SMEs in Cambodia កម្រងសំណួរស្រាវជ្រាវស្តីពីការចាប់យកការប្រតិបត្តិ...

Please provide us your official email address to receive a finding of this research after it has been analyzed, validated and published

Part 1: General Information

1. Gender:

1. Male

2. Female

3. Prefer not to say

2. Role in the Company:

1. Owner/founder

2. Managing Director/CEO

3. HR/Finance Manager

4. Compliance/ESG Officer

5. Otherៗ

Please specify

3. Years with the Company:

1. Less than 1 year

2. 1-2 years

3. 2-5 years

4. 5-10 years

5. 10-15 years

6. 15+ years

4. Types of industry:

1. Agri-food manufacturing/processing (agricultural produce and related, meat, fish, noodle, etc)

2. Wholesale and/or retail trade

3. Accommodation and food service activities

4. Mining and quarrying

5. Manufacturer of textile, apparel, travel goods, and footwear

6. Electricity, gas, steam and air conditioning supply

7. Transportation, storage, and logistic

8. Others

9/28/24, 3:14 PM Survey on Environmental, Social, and Governance Adoption of SMEs in Cambodia កម្រិតការយល់ដឹងអំពីការអនុវត្តបច្ចេកវិទ្យាបច្ចេកទេស...

Please specify

5. Are you producing for exporting or selling your products to international buyers?

1. Yes, we export all products produced

2. Yes, we **only** export/sell some part of the products internationally

3. No, we produce for and sell all products domestically

6. Number of years in operation

1. Less than 1 year

2. 1-3 years

3. 3-5 years

4. 5-10 years

5. 10-15 years

6. 15+ years

7. Estimated total annual turnover of your company (in USD dollar) (this question can be skipped)

1. 000,000 - 250,000

2. 250,000 - 500,000

3. 500,000 - 1000,000

4. 1000,000 - 2000,000

8. Number of employees

1. 1-10 employees

2. 11-50 employees

3. 51-100 employees

4. 100+ employees

9. Does your company receive full or partial investment from any of the following sources? (Select all that apply)

1. Domestic investors

2. International investors

3. Impact investments

4. Government grants

5. Financial service providers (Banks or MFIs)

6. Development partners' grants

7. None of the above

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Part 2: Understanding of ESG

10. Please select one or more of the following terms/phrases that you are familiar with or know about.

1. Environment Social Governance (ESG)

2. Corporate Social Responsibility

3. Sustainability reporting

4. Inclusive Business

5. Responsible Business Conduct (RBC)

6. Ethical Business

7. Responsible Investment

11. When did you first hear about ESG or above phrases?

1. Less than 1 year

2. 1 - 3 years

3. 3 - 6 years

4. More than 6 years

12. How familiar are you with ESG Concepts?

	1. Not familiar	2. Least familiar	3. Somewhat familiar	4. Very familiar	5. Most familiar
1. Details of Environmental, Social, and Governance issues	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Benefits of ESG for SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Risks of not adopting ESG	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. ESG standards/framework for SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Challenges to implementing ESG	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Where to get support related to ESG reporting	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Part 3: Perceived importance and benefits of ESG

13. How do you rate the importance of ESG for long-term success of your company?

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14. Please identify potential benefits of adopting ESG practices for your company (select all that apply):

- 1. Cost savings (e.g., energy efficiency)
- 2. Improved access to finance
- 3. Stronger customer relationships
- 4. Increased employee engagement
- 5. Reduced regulatory risks
- 6. Others

Please specify

15. Do any of the following stakeholders require your business/company to implement Environmental, Social, and Governance (ESG) reporting?

- 1. My buyers/clients ask for ESG reports to ensure that my business practices align with their values and sustainability goals
- 2. My investors demand ESG reporting to assess the long-term viability and ethical standards of my company
- 3. My shareholders interested in ESG metrics to evaluate the company's commitment to sustainable and responsible business practices?
- 4. Banks / lenders / financiers require ESG reports to determine the risk and sustainability of their investment in my company
- 5. None of the above

16. How likely are you or your company to consider ESG practices in your business decisions?

- 1. Very likely
- 2. Somewhat likely
- 3. Not likely at all

Part 4: Current practices and challenges of adoption

17. Does your company have any environmental policies or procedures in place?

- 1. Yes
- 2. No

If yes, briefly describe the main environmental focus areas of your policy (e.g., waste reduction, energy efficiency)

18. In the past years, has your company implemented any initiatives to reduce its environmental impact?

- 1. Yes
- 2. No

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If yes, please select all that apply:

- 1. Reduced energy consumption (electricity, water)
- 2. Minimized waste generation (recycling, composting)
- 3. Used eco-friendly packaging materials
- 4. Implemented sustainable sourcing practices
- 5. Other

please specify

19. Does your company have policies in place regarding employees' welfare, health and safety, gender equality, inclusion, or engagement?

- 1. Yes
- 2. No

If yes, please elaborate on the main focus areas of these policies/programs.

20. Does your company offer any benefits or training programs to its employees beyond basic salary and benefits required by law?

- 1. Yes
- 2. No

If yes, please select all that apply

- 1. Health insurance
- 2. Training and development opportunities

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If yes, please elaborate on some of these ethical practices.

23. Does your company have dedicated staff responsible for social and environmental compliance, or ESG (Environmental, Social, and Governance) initiatives?

1. Yes

2. No

24. Has your company ever reported or shared the results or performance data from the implementation of above policies, initiatives and programmes with customers, stakeholders or the public?

1. Yes

2. No

If yes, how does your company report or share its ESG results/performance?

1. Report/share in company's annual report

2. Report/share on company's website or social media channel

3. Report/share directly with customers/buyers using their reporting templates

4. Report/share using voluntary platforms/standards such as GRI, PRI, or SASB.

5. Assessed by third-party ESG rating agencies

6. Company's sustainability report

7. Press release

8. Other means

25. In comparison to other SMEs in your industry in Cambodia, how would you rate your company's progress in adopting ESG practices?

1. More advanced

2. About the same level

3. Less advanced

4. Not yet ready to adopt the ESG practices

26. Please identify the top three factors that have the most influence on your company in ESG adoption/reporting?

1st most influential factor

Legal requirements Recommendations from buyers/customers

Meeting requirements for access to finance/loans/investments Increased company's awareness on ESG

Available supports and expertise to adopt ESG Company's strategy to commit to ESG (no external force)

Reporting standards become easier (suitable framework and data management)

Lower cost of adoption/reporting Public/stakeholders awareness on ESG

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2nd most influential factor

Legal requirements Recommendations from buyers/customers

Meeting requirements for access to finance/loans/investments Increased company's awareness on ESG

Available supports and expertise to adopt ESG Company's strategy to commit to ESG (no external force)

Reporting standards become easier (suitable framework and data management)

Lower cost of adoption/reporting Public/stakeholders awareness on ESG

3rd most influential factor

Legal requirements Recommendations from buyers/customers

Meeting requirements for access to finance/loans/investments Increased company's awareness on ESG

Available supports and expertise to adopt ESG Company's strategy to commit to ESG (no external force)

Reporting standards become easier (suitable framework and data management)

Lower cost of adoption/reporting Public/stakeholders awareness on ESG

27. Please identify the top three challenges facing your company in ESG adoption/reporting?

3rd most challenging factor

- Lack of awareness, knowledge and expertise on ESG
- Time consuming
- Lack of suitable ESG standards/framework for SMEs
- Lack of senior management supports
- Limited support from other stakeholders (Gov't, NGOs, investors etc.)
- Limited financial resources
- Lack of human resource
- Difficulty collecting ESG data
- Lack of company ESG strategies/directions

Part 5: Support System for SMEs to Adopt ESG

28. Have you or your company received support related to ESG adoption and reporting?

- 1. Yes
- 2. No

If yes, please specify support providers
(select all that apply)

- 1. Buyers/clients
- 2. Investors
- 3. Banks
- 4. Peer SMEs
- 5. Associations and support organizations
- 6. Others

Please specify

29. What types of support have you or your company received?

- 1. Technical training
- 2. Provide tools/guidelines
- 3. Financial assistance
- 4. Guaranteed orders
- 5. Others

Please specify

30. Are you aware of any available support platforms/systems in Cambodia to help your company to adopt ESG practices?

- 1. Yes
- 2. No

If yes, please specify

31. What types of support would be most helpful for your business in adopting ESG practices? (select all that apply)

- 1. Educational workshops/training
- 2. Business coaching including onsite support and guidance
- 3. Financial assistance
- 4. Access to ESG frameworks and tools
- 5. Access to experts/advisory firm with specific knowledge on ESG practices
- 6. Networking opportunities with other SMEs
- 7. Support from the government
- 8. None
- 9. Others

Please specify...
