

UNDP

# Increasing Cambodia's Competitiveness through Corporate Social Responsibility

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DISCUSSION PAPER

# **Increasing Cambodia's Competitiveness Through Corporate Social Responsibility**

A SWOT Analysis of CSR in Cambodia

*Report prepared by*

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## Table of Contents

Acronyms and abbreviations.....	4
Executive summary.....	5
Introduction.....	7
Objectives .....	9
Methodology .....	10
An overview of Cambodia' socio-economic performance .....	12
Corporate Social Responsibility in Cambodia.....	14
Examples of CSR initiatives in Cambodia and their impact.....	17
Promoting CSR in Cambodia: The SWOT .....	28
Current Barriers to Promoting CSR.....	38
Overcoming the Barriers.....	50
Sectoral Analysis of CSR Opportunities in Cambodia .....	57
Garment Industry .....	57
Sustainable Tourism.....	61
Extractive Industries .....	65
Construction Industry.....	<b>Error! Bookmark not defined.</b>
Sustainable Agriculture.....	71
Agriculture /Agro Processing .....	76
Fairtrade .....	79
Social Enterprise .....	83
Sustainable Forestry.....	85
Microfinance .....	90
Socially Responsible Investing Funds .....	95
Good governance .....	98
Benefits of Promoting CSR .....	101
Conclusion and recommendations .....	102
References.....	111

## Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of South-East Asian Nations
BAT	British American Tobacco
BFC	Better Factories Cambodia
CAMFEBA	Cambodian Federation of Employers and Business Associations
CBI	Clean Business Initiative
CDM	Clean Development Mechanism
CSR	Corporate Social Responsibility
C-TPAT	Customs and Trade Partnership against Terrorism
EITI	Extractive Industry Transparency Initiative
EPZ	Export Processing Zone
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FLO	Fairtrade Labelling Organization
FSC	Forest Stewardship Council
GDP	Gross Domestic Products
GHG	Green House Gases
GIM	Growing Inclusive Markets
GMAC	Garment Manufacturers Association in Cambodia
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IFOAM	International Federation of Organic Agriculture Movement
ILO	International Labour Organization
LDC	Least Developed Countries
MDG	Millennium Development Goals
MFI	Microfinance Institution
NGO	Non-Governmental Organization
PEFC	Pan-European Forest Certification
RGC	Royal Government of Cambodia
SMEs	Small and Medium Enterprises
SRI	Socially Responsible Investing
TRADE	Trade Related Assistance for Development and Equity
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
UNGC	United Nations Global Compact
UNWTO	United Nations World Tourism Organization
WBCSD	World Business Council for Social Development
WTO	World Trade Organization

## Executive summary

Cambodia is in urgent need for diversifying its economic activity by opening up new sources of growth to spur socio-economic development in rural areas and at the same time be able to compete in international markets.

In the past few years, Cambodia has enjoyed a healthy and sustained economic growth on the back of garment exports and more recently by surge in tourism and construction sectors. The nation also hopes to tap a new source of revenue from oil and gas deposits in near future, though the prospects are not clear at present as estimations of reserves are not known yet.

However, the benefits of economic growth have not reached the wider sections of society, particularly the rural population which constitutes over 80% of the total populace. The economic activity has remained largely concentrated in the capital Phnom Penh and tourist destination Siem Reap.

The garment industry, which is the backbone of the economy, plagued with low productivity, high costs and industrial disputes is not well placed to face intensifying competition from the neighbouring Vietnam and, after the end of this year, from China when the remaining textile quota restrictions will be lifted from the latter.

Going forward, Cambodia needs to improve competitiveness of its garment industry to prevent decline, direct a sustainable growth of the tourism and construction sectors, identify new areas of growth based on its strengths, attract foreign investment, develop a competitive private sector and better integrate with international markets.

This study concludes that a careful deployment of Corporate Social Responsibility principles can facilitate and guide a sustainable and inclusive socio-economic growth of Cambodia by boosting the competitiveness of existing sectors as well as by opening up new markets and opportunities.

Key advantages of promoting a nationwide CSR culture include increased market access, foreign direct investment, integration with global markets, robust development of private sector, sustainable socio-economic development, rural development, climate change mitigation, better risk management and enhanced reputation and image.

Cambodia has several strengths that lay a solid ground for the promotion of CSR. These include a supportive socio-political environment, vibrancy of small and medium enterprises, a dynamic economic sector, CSR lead by some multinational companies, presence of socially responsible businesses and supportive stakeholders.

There is a wide range of opportunities for deploying CSR to boost Cambodia's competitiveness and spread the socio-economic growth to rural areas. These opportunities,

for example, exist in sustainable tourism, organic agriculture, fairtrade, garment, social enterprises, microfinance institutions, pro-poor or inclusive businesses, socially responsible investing, expanding ethical manufacturing to new products, natural resource extraction, sustainable forestry, agriculture and agro-processing industry, construction industry, renewable energy, governance and human resource development.

Failing to embrace CSR can not only cost these opportunities, it can also potentially pose serious threats for the country's competitiveness by increasing reputational risks, limiting growth and expansion of the private sector, restricting market access, worsening business environment, affecting foreign investment and slowing down international integration.

Weaknesses that can potentially impede the promotion and deployment of CSR include lack of capacity, poor understanding of benefits of CSR, difficult business environment, poor governance and unfavourable regulatory environment.

Main barriers for promoting CSR include capacity-related barriers, financial barriers, regulatory and institutional barriers and business-environment related barriers. Out of these, capacity-related barriers have the most serious impact. Three pronged strategy is required to overcome these barriers: capacity building, advocacy and regulatory reforms.

Corporate Social Responsibility is a relatively new concept in Cambodia. The majority of businesses and stakeholders are still not fully aware of the strategic importance of CSR as a tool to increase the competitiveness at the company as well as at the industry level.

There is a clear need for actively promoting CSR among businesses including the SMEs. This can be best achieved by a collaborative partnership between private, public and civil society actors. Establishing a national-level multi-stakeholder CSR forum should be the first step in this direction. The forum then can work toward a national CSR framework and sub-sets for key sectors through dialogue. Simultaneously, CSR competencies need to be built through the development of local service providers, training and information dissemination.

## Introduction

### Background

UNDP's assistance to the Ministry of Commerce centres on developing national capacity to make the best of the benefits that Cambodia's membership of the World Trade Organization offers through the Trade Related Assistance for Development and Equity (TRADE) project. It facilitates Cambodia's integration into global and regional markets by helping to identify strategies that will promote exports most promising for revenue, export diversification and employment generation.

The rationale for the focus on the TRADE project is due to the strong impacts that trade can have on human development and poverty alleviation. The project contributes to the achievement of the overall National Strategic Development Plan (NSDP) and therefore to the socio-economic development of Cambodia.

Enhancing Cambodia's trade potential and also strengthening the linkages between trade and human development relies on several factors including the competitiveness and investment quality of Cambodian industries in comparison to their neighbours. Competitiveness and investment quality can be generated in several ways, with conventional approaches focused purely on price and returns. However, newer approaches which have proven to also be financially higher yielding have focused on improved quality of corporate practices including labour standards, product quality, transparency, governance, and environmental standards.

The approaches mentioned above generally fall under the umbrella of the practices of Corporate Social Responsibility (CSR) which have received much attention globally and been increasingly recognised as not only having substantive impacts on the bottom line, but also improving the competitiveness, investment quality and overall socio-economic impacts of firms and countries.

Globally, UNDP has recognised and been a strong advocate for the benefits of CSR and the opportunities that improved CSR practices can play in human development and private sector growth. UNDP's Private Sector Strategy which focuses on fostering inclusive markets also emphasises the importance of CSR as one of its 5 key pillars of focus.

More recently, UNDP has also created the Growing Inclusive Markets (GIM) initiative, a UNDP-led, multi-stakeholder initiative that aims to raise awareness and information on how businesses, governments, and civil society can create opportunities for the poor through market-based approaches. More importantly, it seeks to inspire and provoke the private sector to action. Growing Inclusive Markets was conceived in 2006, following the success of 2004's Unleashing Entrepreneurship: Making Business Work for the Poor report.

Operationally, GIM works by developing and maintaining a web-based storehouse of data and information on low-income markets, a flagship series of global reports and a kit of diagnostic tools and methodologies for developing national reports that examine the inclusiveness of markets in individual countries, and the promotion of these programs and toolkits within developing markets.

Following a series of launches around the world, UNDP now intends to launch the GIM report in Cambodia with the primary objective of raising awareness of local pro-poor market based business opportunities, and inspiring businesses to identify and invest in such opportunities. The launch will also present the report as a toolkit of case studies, strategic models and ideas which businesses could use to develop such pro-poor business models in Cambodia where 90% of the rural poor still lack proper access to essential goods and services.

The GIM report launch in Cambodia will set the stage to continue dialogue and seek solutions to better economically integrate Cambodia's low income individuals. Inspired by successful business models and global case studies developed in other countries, Cambodian stakeholders including the private sector and the government will contemplate how innovation and change into the current environment could support overcoming existing constraints and barriers and provide more opportunities for the rural poor.

### **Organizational Context**

UNDP has been considering the most appropriate way to contribute to improved CSR practices in Cambodia as it is anticipated that improved CSR practices would complement and benefit key objectives within UNDP's TRADE program and the NSDP. GIM's first global report, finalized in late 2007 presents an excellent framework for businesses to identify, evaluate, and develop pro-poor socially responsible business models. Following its string of country launches, it will be a good opportunity to begin a longer term CSR movement in Cambodia upon its local launch in November 2008.

Recently, D'HUB Asia Ltd, an integrated public relations agency, approached UNDP to introduce Cambodia's first major CSR conference to be fully funded by the private sector. The conference is proposed for November 2008 and aims at bringing together representatives from the Government, development partners, private sector and civil society.

The conference proposal is timely and is a good opportunity to begin discussion and action on CSR in Cambodia. UNDP aims at seizing this opportunity to launch the GIM report.

It is in this context that UNDP Cambodia engaged the author of this report as a CSR Strategy Consultant to conduct a SWOT study of CSR in Cambodia, develop an appropriate agenda for the conference and provide technical assistance for the conference content.



## Objectives

The main objectives of this study include taking stock of current CSR initiatives, gauging the level of awareness in Cambodia, identifying potential drivers for change and to make policy recommendations for promoting Corporate Social Responsibility (CSR) in Cambodia for competitive advantage. The objectives also include assessing the impact of current CSR initiatives in terms of socio-economic and environmental gains, identifying potential benefits of promoting wider a CSR program, identifying current bottlenecks at various levels which hinder outreach of the existing CSR initiatives or the development of new ones and finding possible ways to overcome these barriers.

The study aims to achieve these objectives by carrying out a SWOT analysis of CSR in Cambodia supported by an extensive desk review of publicly available data and reports and interviews with a range of stakeholders from various sectors including private, public, academics and civil society.

## Methodology

The methodology-mix used for this study included a SWOT analysis, desk review of publicly available statistics and reports and interviews with a range of stakeholders from various sectors including private, public, development and donor organizations, NGOs and academics.

### THE SWOT

The underlying methodology for this study is a SWOT analysis of CSR in Cambodia. SWOT Analysis is a strategic planning tool to evaluate the Strengths, Weaknesses, Opportunities and Threats involved in achieving an objective.

The SWOT analysis in this study revolved around the core objective of promoting wider CSR practices in Cambodia for competitive advantage. The SWOT analysis involved the following:

#### *Strengths*

- Identifying internal attributes and factors which are helpful in achieving the objective of promoting CSR in the country.
- Identify internal attributes and factors which can potentially facilitate competitiveness of Cambodia when CSR is deployed.

#### *Weaknesses*

- Identifying internal attributes and factors which are detrimental to the objective of promoting CSR in the country.
- Identifying internal attributes and factors which affect the competitiveness of Cambodia by inhibiting deployment of CSR.

#### *Opportunities*

- Identifying external conditions and factors which are helpful in achieving the objective of promoting CSR in the country.
- Identify external conditions and factors which are helpful in gaining competitive advantage by deploying CSR.

#### *Threats*

- Identifying external factors and conditions which can damage the competitiveness of the industry in particular and the country in general if CSR is not deployed.

### Research

An extensive desk review of available data, information and reports relevant to study helped conduct an initial analysis of the state of CSR in Cambodia and in the region, roles being played by a range of actors in the private, public and civil society and potential areas where corporate social responsibility practices could lead to competitive advantage.

The initial analysis also helped identify potential stakeholders for further consultations and interviews to accomplish this study by taking into account diverse views available.

### **Stakeholder interviews**

Stakeholders, identified through the desk review, initial analysis and professional networks, were then approached for face to face interviews using a semi-structured questionnaire. Some interviews were conducted over the phone due to time constraints.

### **Sectoral analysis**

Based on the SWOT analysis, research and stakeholder interviews, key sectors of economy were identified where CSR practices could lead to clear socio-economic gains and create a competitive edge for businesses.

## An overview of Cambodia' socio-economic performance

Cambodia has enjoyed a continued economic growth for the last four years driven by garment exports, construction and tourism. The GDP grew at 9.6% in 2007, preceded by an average of 11% growth in previous three years.

Garment exports, the main engine of growth, is showing signs of slowing down on account of weakening demands in the US and Europe and an increased competition from Vietnam which joined the WTO in January 2007. The export growth rate was at 9.6% in 2007, alarmingly lower than a high 26.9% in 2006 and significantly lower than the average 20.3% growth registered during 2003-06.

Garment export industry in Cambodia is expected to face even stiffer competition after the termination of safeguards imposed by the US on clothing exports from the People's Republic of China. Very low productivity compared to its competitors also puts the Cambodian garment industry at a disadvantage. Industrial strife is making the matter worse for the garment manufacturers. The sector employs over 350,000 people, mostly young uneducated women from rural Cambodia. The sector is too important to be allowed to decline. Increasing the competitiveness of garment industry is therefore of immense strategic importance to sustain growth and save jobs.

Simultaneously, the country needs to quickly diversify sources of growth in ways that will spur greater rural development and poverty reduction. The Government has launched its trade development strategy that aims at promoting the export of 19 products that include rubber, silk, footwear and a variety of agricultural products. The government has also approved 15 special economic zones to expand industrial activity.

Tourism, which grew at a healthy 18.5% in 2007 with over two million arrivals, shows a promising future if planned and developed carefully.

Cambodia has a population of 14.6 million. In spite of maintaining a healthy 9% average growth in GDP over the last 10 years, the poverty remains challenging at 34.7% of the population. The recent economic growth has largely benefitted the urban areas while 91% of the poor live in rural areas. This has increased income disparity between the urban and rural

### Cambodia's Poverty Statistics

- 20% of the country's population remain food-poor and do not get the minimum average of 2100 calories a day.
- 34.68% live below the national poverty line.
- 19% of the population lives below the dollar-a-day rate. (2004)
- Only 57% of children reach Grade 5. Fewer than 50% enrolled complete grade 6.
- Cambodia's infant mortality rate of 65 deaths per 1000 births is one of the highest in the world.
- Maternity mortality ratio is high at 437 per 100,000 births.
- Cambodia has the highest prevalence of tuberculosis in Asia at 428 per 100,000. (1997)

*Sources: Cambodia Human Development Report 2007, National Strategic Development Plan 2006-2010, World Bank's East Asia Update 2005*

populace. 80% of the total population lives in rural areas. This requires a broad-based economic growth that includes the social development of the rural population.

Developing Infrastructure, health care and education remains a challenge requiring huge investments.

The economic growth is led by garment exports followed by tourism. The country needs to quickly diversify sources of growth in ways that will spur greater rural development and poverty reduction.

Corporate Social Responsibility has a great potential to increase the competitiveness of Cambodia, attract much needed foreign investment and create new industries while add more value to the existing ones.

## Corporate Social Responsibility in Cambodia

### Understanding Corporate Social Responsibility

At the global level, there is no consensus on the definition of corporate social responsibility. There are several definitions and theories. A number of initiatives have been launched by civil society, industries, international organizations including United Nations (Global Compact) and even governments.

As a result of multiple interpretations, corporate social responsibility is understood and practiced differently by different companies. A company often has to customize its CSR program to a country or even to a region within a country.

CSR is often confused with philanthropy particularly in countries where it is a relatively new concept. However, as the awareness increases, companies start gaining deeper understanding of CSR and how to implement it in their business.

The European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

A more mainstream thinking considers CSR as a business response to minimize the negative impact and maximize the positive impact of business operations on stakeholders. In this context, a company's CSR program includes initiatives targeting four broad constituencies: workplace, marketplace, environment and community.

#### **The WBCSD's definition of CSR**

"Corporate social responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large"

*Source: World Business Council for Social Development*

Businesses initiating CSR program are expected to carefully identify relevant stakeholders, actively engage with them, map out the good and bad impacts of each of their business aspect on stakeholders and then develop policies and programs to address them.

Legal compliance is the first step toward CSR. Eliminating negative impact of business operations is the next step. CSR excellence is achieved when companies go further and make conscious efforts to maximize the positive impact on stakeholders including society and environment.

CSR then means a careful assessment of the impacts- both negative and positive- of business operations on a range of stakeholders and finding ways to reduce the harmful effects and increase the good effects. This also means identifying all relevant stakeholders and engaging them in the process. This is accomplished by engagement, dialogue and open communication.

Some of the key issues involved in corporate social responsibility include stakeholder management, human rights, labour standards and working conditions, respecting workers' rights, diversity, employee relations, ethical sourcing, environment management, carbon footprint, climate change, community relations, social and environmental impact of business on local communities, product safety, customer rights, good governance, anti-corruption measures and transparency.

There is growing evidence and consensus that CSR can play a strategic role in gaining competitive advantage by helping the company build a committed workforce, increased productivity, cost efficiency, increase in sales and profits, customer loyalty, increased access to capital and markets, lower litigation costs due to higher compliance, improved risk management, better brand equity and enhanced reputation.

“Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.”

*-Dow Jones Sustainability Index*

Companies worldwide are now embedding CSR in their overall business strategy to seek a range of benefits. Some of the most common benefits of CSR include market access, attracting investment, better risk management, lower regulatory risk, reputation enhancement, customer retention, employee retention, higher productivity, increased sales, better management systems and community goodwill.

There is a wider agreement now that CSR helps improve the competitiveness of companies and countries, enhances reputation, improves governance, attracts foreign investment and spurs sustainable socio-economic development. These benefits are prompting governments to play a more active role in promoting CSR.

### **Current state of CSR affairs in Cambodia**

Corporate Social Responsibility is a relatively new concept in Cambodia. Though large multinational companies operating in Cambodia have experience in CSR, most local businesses and businesses with regional ownerships, local NGOs and the public sector do not seem to have a clear understanding of what it means.

Low awareness of CSR is not surprising given the fact that the private sector<sup>1</sup> in the country is still in the primary phase of development.

Some of the multinational companies, which have set up operations in Cambodia, have introduced their corporate social responsibility programs. But most of these programs remain

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<sup>1</sup> See ADB, Private Sector Assessment and Development Strategy, 2004, and the World Bank Cambodia: Seizing the Global Opportunity: Investment Climate Assessment and Reform Strategy, 2004.

philanthropic in nature. Common examples of CSR given by companies include sponsoring sports events, scholarships, donating to charities and supporting community work by NGOs. Stakeholder consultations also revealed that social work is the most commonly perceived meaning of CSR in Cambodia. Since many local companies are engaged in social work, they believe they already practice CSR.

There are several examples of NGOs running a wide variety of businesses or social enterprises in Cambodia. Some of these are mentioned later in this report in the section on sectoral analysis. These ventures deploy most principles of CSR in their operations and still make profits. These examples provide local evidence that business responsibility and profits are not mutually exclusive.

A recent trend is to explore inclusive business or pro-poor business models in Cambodia given a large proportion of poor population with minimal access to products and services. Already championed by microfinance institutions, now multinational companies such as ANZ Bank are willing to experiment pro-poor business model that allows them an outreach to an otherwise neglected and untapped markets. ANZ will be offering financial services, which is its core business, to the poor in association with other partners. A brief description on the project is given on page 21 of this report.

Cambodia is planning to open a stock exchange in 2009. Companies eyeing public listing are more open to understanding how CSR can help them to make more attractive to investors. Some companies shared that they are in the process of developing their CSR program.

A look at some of the initiatives taken by a few businesses and associations in Cambodia gives an interesting insight into the state of CSR in Cambodia.



## Examples of CSR initiatives in Cambodia and their impact

A brief description of some of the CSR initiatives in Cambodia is given below:

### CAMFEBA

Cambodian Federation of Employers and Business Associations (CAMFEBA) has conducted a study, funded by IPEC, on how other companies in Asia are using CSR to address child labour and what Cambodian companies can learn from them. CAMFEBA plans to conduct a workshop, based on the findings of the study, early next year.

Other programs undertaken by CAMFEBA include Youth Employment and Dialogue Project, supporting an initiative on disability, and Cambodian Business Coalition on AIDS.

CAMFEBA has actively campaigned against the problem of child labour and all its members have committed to not to engage in child labour practices. CAMFEBA has even posted a code of conduct on child labour on its website. As a result of child labour campaign, CAMFEBA is now confident that none of its members employs child labour.

### ANZ ROYAL BANK

ANZ Royal Bank has introduced a range of activities under its community development programs.<sup>2</sup> Examples include:

- Provides 8 hours a year paid leave to each employee for community volunteer work.
- Each branch has its own community program fund in addition to a centrally managed fund.

#### CAMFEBA's Youth Employment and Social Dialogue Project (YEP)

Providing employment opportunities to young people and tapping their potential is the key to achieving the United Nations Millennium Development Goal (MDG) and contributing to the Rectangular Strategy of the Royal Government of Cambodia. In Cambodia, young people are two to three times more likely than adults to find themselves unemployed. One of the main causes of such youth unemployment is the mismatch between demand and supply of skills in the labour market.

The YEP Project is a joint-initiative between the Cambodian Federation of Employers and Business Associations -CAMFEBA and the ILO's Bureau for Employers' Activities (ILO ACT/EMP) under the Program on Social Dialogue funded by the Norwegian Government. The project was launched in Cambodia in June 2007. To ensure that the Social Dialogue plays the strategic role to help coordinate the project to achieve its objectives, the YEP Project set up a Project Advisory Committee, which is a tripartite-plus body, whose members are from the Government, Employers, trade unions, NGOs, universities, and donor agencies.

The YEP Project mainly aims to promote a better Social Dialogue between the Government, Employers, Trade Unions and all relevant stakeholders so as they jointly address the youth unemployment issue in Cambodia by creating decent work and promote income opportunities for youth through matching the supplies to the demands in skills in the labour market. CAMFEBA believe with this approach the youth challenges in getting the decent jobs and the employers' difficulties in finding human resources with the right skills can be addressed simultaneously.

So far, based on survey of skill gaps, more than 500 people - mostly university students- have been trained in employable skills.

*Source: CAMFEBA*

<sup>2</sup> Source: ANZ Royal Bank

- Children's Surgical Centre – ANZ Royal Bank supported the purchase of an ambulance and a series of TV burn prevention campaign for this organization that provides free rehabilitative surgery to children whose families are from rural Cambodia.
- Helmets for Kids – in collaboration with Asia Injury Prevention Foundation, we support the distribution of motorbike helmets for primary school children. Each year, around 500 helmets are donated to children. We have also provided our staff with motorbike helmets to reinforce the road safety program and keep our people safe.
- Friends International/Mith Samlanh- ANZ Royal Bank established a formal partnership with Friends International/Mith Samlanh through signing Childsafe Alliance Agreement in 2007. Through this partnership, Childsafe SpotMap is produced, Childsafe volunteer activities by ANZ Royal Bank staff occur every weekend at Mith Samlanh's shelters, and financial assistance flows from the bank to fundraising programs including Friends Flea Market and Childsafe Fundraiser.
- National Library of Cambodia- ANZ, Australia sponsored 8 computers and ANZ Royal Bank provided one printer to the National Library of Cambodia to enhance the library services to the public. ANZ Royal Bank finances Information Literacy Program of the library. This program enables library users and researchers to learn basic information literacy and library's catalogue search skills.
- The company has produced an annual Community Report since 2006.
- ANZ Royal has taken the lead by putting in place a Disability Policy and making its offices disable friendly.
- The company is a signatory to the Clean Business Initiative, an anti-corruption program.

### **BRITISH AMERICAN TOBACCO COMPANY**

BAT has progressively introduced responsible tobacco farming program in Cambodia since it established a joint-venture in 1996. The company has a direct contract with farmers who grow tobacco on more than 7,300 hectares of land. The company has been working with farmers to upgrade their farming techniques and farm management which resulted in yield increasing from 750kg/h in 1996-97 to now more than two tonnes per hectare.

The company provides seeds to farmers and buys back their produce at a pre-determined price giving about 40% return on investment for farmers. In addition, the company provides interest free loans to farmers for buying farm input such as fertilizers. Other activities include educating farmers on pest control management and safe handling of agro-chemicals. Farmers are encouraged to use natural pest repellent such as neem. A Tipping and Stemming Plant, established in 2000 in Kampong Cham provides more than 1000 seasonal jobs for the local people.

The company is also helping tobacco farmers to grow mushrooms and vegetables for additional income.

Higher yield and earning has led to better living conditions for participating farmers. Farmers have even been able to buy tractors for farming and motorcycles for their personal use.

Supporting the Royal Government policy of reforestation, BAT Cambodia has grown and distributed approximately 3.6 million tree saplings since 1998. Along the National Road No 7 from Bateay District through to the city of Kampong Cham, for instance, trees on both sides of the road are all planted by BAT Cambodia. Apart from this, hundreds of thousands of trees have also been planted on tobacco fields in Tbong Khmum, Kroch Chmar and Kos Tasuy. In addition, since 2000, the company has supplied more than 400 000 trees sapling to the Tertiary Road Improvement Program (TRIP) to plant along their newly improved rural roads in a number of provinces including Kampong Cham, Kratie, Kampong Thom and Preyveng.

## **DFDL MEKONG**

DFDL Mekong, a leading law and tax advisory firm in Cambodia, is involved in the following activities<sup>3</sup>:

**Legal Studies Fund:** In 2004, DFDL Mekong established a scholarship fund to help Cambodian students, in need of financial assistance, further their studies in the legal field. Each year since inception of the fund, DFDL Mekong has collaborated with various organizations (such as Enfants Du Mekong, Enfants d'Asie ASPECA, Khmer Foundation for Justice, Peace and Development and French Cooperation), to sponsor 7 to 8 students annually. Once selected for sponsorship, the costs of the students' university fees are borne by DFDL Mekong for the full duration of the course. Currently, there are 35 students benefiting from the program.

**Education Fund for Employees:** The firm has established an education fund for its own employees who can tap into the fund to pursue education which is of relevance to their job. Employees can be reimbursed 60-100% of their study cost under the scheme. Out of the total 50 employees, 15 have so far availed the fund.

**Tennis Training Fund:** In 2006, DFDL Mekong created a Tennis Training Fund to assist aspiring young Cambodian tennis players to develop their skills under the guidance of the Tennis Federation of Cambodia (TFC). The fund subsidizes the cost of regular trips abroad for juniors selected by the TFC including tournaments and training at internationally recognized tennis camps.

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<sup>3</sup> <http://www.dfdlmekong.com/about-us/corporate-social-responsibilities.html>

**Support to Lao Elephant Conservation Program:** In 2007, Mekong Law Group sponsored the activities of the Lao Elephant Conservation Program, implemented by the association ElefantAsia in collaboration with the National Animal Health Centre. The objectives of the Elephant Conservation Program, being (i) improving the health and welfare of working elephants and (ii) raising awareness regarding the conservation of Asian elephants among the Lao population, are fully integrated in the general issues and challenges related to the protection of environment in Lao PDR.

**Weekly Law Update:** The firm publishes a weekly law update which has become a valuable resource for legal professionals. Now the firm is planning to establish a law library.

## **TOTAL: HELPING RURAL ELECTRICITY ENTERPRISES IMPROVE ACCESS TO ENERGY<sup>4</sup>**

Energy giant Total is working to alleviate poverty in Cambodia by facilitating trade, business and private sector investment in local SMEs, which constitute the backbone of the country's economic activity. Together with various stakeholders (UNDP, project initiator/consultant; National University of Management; Institute of Technology of Cambodia; Kram Ngoy technical training center), project leader Total Cambodge launched a project designed to improve access to energy and reduce energy costs for local communities. The focus of the joint project in their host regions is to share know-how with local SMEs. In 2008, four LPG distributors, two independent service stations, one garage and three rural electricity enterprises were involved in these initiatives.

A study of the situation conducted between July 2005 and June 2006 showed that energy distribution in rural Cambodia was extremely uneven. In these areas, rural electricity enterprises use a rudimentary system of diesel generators and underperforming distribution grids to supply electricity to the population. The resulting distribution is highly inefficient and can only be considered a short-term solution.

Since 2007, Total has helped to provide training for several rural electricity enterprises (REE). The Battambay, Banteay Meanchey, Prey Veng and Kampong Cham Province REEs received multidisciplinary training in management, finance, product technical properties and safety.

By participating directly in the local skills enhancement process, Total helps to improve access to energy and reduce poverty. The rural electricity enterprises enjoy improved productivity and profitability, enabling them to provide communities with cheaper, more reliable energy.

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<sup>4</sup> <http://www.total.com/en/corporate-social-responsibility/case-studies/>

Thanks to the project, the REEs are generating profits of \$200 to \$1,000 a month. The Prey Veng REE obtained a \$25,000 loan from ANZ Royal Bank to upgrade its infrastructure, with Total as guarantor for 50% of the loan amount.

## **BHP BILLITON**

In Mondulkiri province, BHP Billiton is conducting a bauxite exploration program. As part of company's community engagement in the region, it is supporting initiatives aimed at benefiting the local community. The company has assisted the Danish Red Cross working in Cambodia with funding to provide safe drinking water and training on, and supply of, household water treatment filters. Red Cross volunteers have been trained and are operating in five villages. New boreholes have also been drilled to establish access to fresh water.

## **THE CLEAN BUSINESS INITIATIVE**

The Clean Business Initiative (CBI), launched in September this year, is Cambodia's largest collective corporate social responsibility program focussing on competition and corruption. The initiative, supported by Pact Cambodia and US Agency for International Development, has been endorsed by over 44 local and multinational companies operating in Cambodia.

CBI is a business-led effort which seeks to accomplish two interconnected goals:

1. To support private sector development by enabling businesses to work in a fair environment and
2. To promote "clean business" practice within internal company operations

The Clean Business Initiative has designed a number of activities to promote fair competition and integrity within business operations. The Clean Business Initiative will take on these activities on priority:

- **Filling the Information Gap** – CBI research reveals that many businesses lack access to vitally important business information. The Initiative is working to fill this gap, posting laws, prakas, and regulations on this website. CBI plans to create easy-to-understand and user friendly guides to this information.
- **A Preferred Provider Network** – The Clean Business network will serve as a preferred provider network for endorsee businesses as well as donors and NGOs. CBI endorsees commit to avoiding fraudulent and corrupt acts and operating with fairness and integrity among customers, clients, suppliers and partners. Given this commitment, there is a certain standard in quality and service associated with Clean Business endorsees. CBI-affiliated companies often would look first within the network when looking for a particular

product or service. In addition, the CBI is working with international NGOs and donors to incorporate preference for Clean Business endorsees within their supply chains. Several organizations have already agreed to do so, including Pact, CARE and World Vision.

- **Clean Business Toolkit** – As Cambodia increasingly becomes a player in the global market, it is growing more and more important for businesses to follow international best practice in corporate governance. To help businesses achieve this goal, the CBI will develop generic and easy-to-understand policies that reflect international standards and can be adapted by any company. These sample policies include a code of ethics, a customer service policy, an anti-corruption policy, and a fraud reduction policy. Once the Toolkit is completed, these policies will be posted on this website.
- **Conferences, Workshops, and Trainings** – To complement the production of the Clean Business Toolkit, the CBI will hold workshops and training session for endorsees to provide information on how to effectively implement the policies laid out in the Toolkit. CBI also plans on holding an annual conference on business environment issues, featuring local and international experts.
- **Promotion of Private Sector Business Environment Reforms** – The Clean Business Initiative aims to discuss and promote business reforms directly when possible with representatives of the Royal Government of Cambodia (RGC) and through existing channels such as the Public-Private Dialogue.

## **BETTER FACTORIES CAMBODIA**

ILO-managed BFC program is the most visible program in Cambodia that can be directly linked to corporate social responsibility objectives of western retailers. Its impact is also very visible and significant for the socio-economic development of Cambodia.

The program grew out of a bi-lateral trade agreement between the US and Cambodia in 2001. Under the agreement, Cambodia was granted better access for its garment exports to the US in exchange for improved working conditions in garment factories.

ILO was given the responsibility to monitor and report working conditions in garment factories according to national and international standards. The program fits well with ethical sourcing policies of western retailers who have actively supported it.

The program is funded by the US Department of Labour, USAID, Agence Francaise de Development, the Garment Manufacturers' Association in Cambodia, the Royal Government of Cambodia and international buyers.

Western retailers, confident of decent working conditions in Cambodian factories thanks to ILO BFC monitoring, have voted with increased orders over the years. As a result, garment exports grew from \$1.1 billion in 2001 to \$2.8 billion in 2007<sup>5</sup>. The industry has also created 350,000 jobs. The industry remains the highest contributor to the GDP of Cambodia. 62,000 jobs were created between January 2006 and December 2007 alone<sup>6</sup>, indicating the industry continues to do well.

The program has earned good reputation for garment factories in Cambodia for relatively better working conditions and attracting international buyers.

More recently, 28 representatives of leading garment brands who attended the International Buyers' Forum in Phnom Penh in October stated they were recommending that their companies continue sourcing from Cambodia.

### **ANZ'S WING: INCLUSIVE BUSINESS APPROACH**

ANZ Bank is launching a mobile banking service named "Wing" for the unbanked poor of Cambodia in partnership with ANZ Royal. Wing's mission is to help the Cambodian people to improve their livelihood and alleviate their conditions of poverty, by increasing access to financial services for the unbanked<sup>7</sup>.

ANZ is developing a branchless banking system using mobile phone technology. Branchless banking operations targeting the poor are already being run by other organizations in Brazil, Russia, Malawi, Chile, South Africa and Kenya.

WING will be a mobile payments provider that aims to provide the means for customers to transact using an ANZ Royal or other banks transaction account. It is targeting those customers who are generally un-banked, however have important needs including the transfer of money within Cambodia, safely securing cash, and purchasing airtime and paying bills.

Wing's customers will be able to withdraw cash from ANZ Royal's ATMs or use their mobile phone to withdraw or deposit cash, or make payments at Wing accredited merchants.

In association with International Finance Corporation and Accenture, the company is also building social, economic and financial indicators into its business to track the project's positive impact on the community. In addition to increasing access to financial services and technology for the poor, the initiative is also expected to create a substantial number of jobs as it appoints sales agents and merchants across the country.

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<sup>5</sup> Ministry of Commerce, 2007

<sup>6</sup> BFC Factsheet April 2008

<sup>7</sup> Wing

The project is being kicked off with a pilot that will allow some 400,000 textile workers in Cambodia to send remittances to their families living in provincial locations in Cambodia using SMS mobile phone technology.

ANZ is engaged with several organizations, such as GMAC, major telecom companies, microfinance institutions and Village Phone, to reach out to an estimated 7-8 million unbanked population in the country.

Later, ANZ plans to launch WING in other countries in South East Asia.

### **MOBITEL FOUNDATION**

Mobitel, a leading mobile phone operator in Cambodia, launched Mobitel Foundation in 2002 for community work. In 2003, Mobitel Foundation Children's Fund was launched. The fund has taken up five projects to improve the wellbeing of children: A new school in Kompong Thom, English lessons for children in Kompong Pring, a culture camp in Kompong Cham, a vocational training course for neglected children in Siem Reap and a health education camp in four provinces.

### **SIEMENS**

Siemens has implemented its global policy on supply chain responsibility in Cambodia by asking all its local suppliers to sign a supplier agreement that includes commitment to company's code of conduct. The code of conduct includes standards on legal compliance, corruption and bribery, human rights, child labour, health and safety of employees and environment protection.

The company also requires all employees to sign its ethics code of conduct. A copy of Siemens Compliance Guide on Anti-corruption is given to all employees, suppliers and business partners.

By introducing its code of ethics to its employees and suppliers, the company has created a reputation for its clean business policies.

### **THE C-BIRD PROJECT**

Inspired by the Thai Business Initiative in Rural Development (TBIRD), which has successfully tapped private sector resources to create sustainable income generation opportunities for the rural communities in Thailand, a similar project called the Cambodia



Business Initiative in Rural Development (C-BIRD) was initiated in 2005. The Asian Development Bank provided the technical assistance for the establishment of the project from 2005 to 2007.

The TBIRD concept involves recruiting companies to transfer business skills to village communities, create income generation activities in the villages. Local employment opportunities slow down migration to urban areas and spur socio-economic development of rural areas. TBIRD relies on a strong partnership between the government, the private sector, and the villages. The government plays a supporting role by building necessary infrastructure for the project and the private sector provides business skills, know-how, technology and market access for the village enterprise. The NGO acts as a facilitator and coordinator.

Drawing on the experience of TBIRD, the Cambodian initiative started with the establishment of a C-BIRD Public-Private Partnership Task Force chaired by the then Deputy Prime Minister and Minister of Rural Development H. E. Lu Lay Sreng. The task force included representatives from all leading business associations, various ministries and donor organizations.

The Cambodia Business Initiative in Rural Development developed as a program to connect businesses and rural society through innovative partnerships that leverage resources from both sides to develop sustainable income-generating activities for rural areas.<sup>8</sup>

Some of the potential projects suggested by the authors of the C-BIRD study report include cotton growing for textile industries which will help 'deepen the garment supply chain', garment remnant utilization by creating village workshops and income generating opportunities and positive partnerships linked to microfinance (a micro-credit scheme for HIV-positive persons to start a business).<sup>9</sup>

The C-BIRD Foundation has been formed to steer the program. The project is now at a stage where more funding is needed to set up the Foundation's secretariat and team of managers to carry forward the work and perhaps engage in a few more pilot projects before scaling the program up. A draft business plan and a draft for governance structure and strategy are already in place.

## **CAMBODIA CORPORATE CITIZENSHIP AWARDS**

IFC/MPDF and the Ministry of Commerce launched a "Corporate Citizenship Award" in Cambodia in November 2004. The goals of the award are to: raise awareness of the need for sustainable business practices within the Cambodian business community; highlight sustainable business practices both internationally and in Cambodia; encourage the adoption of good practices more widely; and highlight the assistance that IFC/MPDF and other

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<sup>8</sup> CSR and Cambodia Business Initiative in Rural Development, Peter Bolster and Peter Brimble, 2007

<sup>9</sup> C-BIRD "Moving toward Implementation" Phase II Report, ADB, 2007

international organizations can provide to companies that want to become better corporate citizens.<sup>10</sup>

Companies were invited to apply for one of four awards in (1) employment and labour practices, (2) environmental stewardship, (3) community engagement and (4) corporate governance.

New Island Clothing, Hotel Cambodiana and Hagar Soya Company were among the winners of the awards announced in February 2005. Each winner was presented with up to \$30,000 in technical assistance from the International Finance Corporation.

The winners were selected from among 24 entries. The selection process included initial assessment based on an extensive checklist, company visit and company interviews and confidential scoring by the judges.

The award scheme, which raised awareness about CSR among Cambodian businesses, however did not continue in the following years.

### **CSR development in south-east Asia**

Various governments in South-east Asia have taken the lead in promoting a wider CSR. These include Vietnam, Malaysia, Thailand, Singapore, the Philippines and Indonesia. Malaysia has even introduced a national CSR framework for the private sector and a comprehensive guideline for government-linked companies. Malaysia has made it compulsory for publicly-listed companies to publish an annual CSR Report.

Indonesia has proposed a CSR regulation and setting up of a CSR fund.

Vietnam has started an annual CSR Award since 2005 which is gaining popularity among the business community. In 2007, Malaysia introduced Prime Minister's annual CSR Awards in six categories to recognize companies with outstanding CSR practices. Singapore has introduced an annual Sustainability Reporting Award. Indonesia also started an annual CSR Award in 2005 organized by the ministry of social affairs in association with other stakeholders. The American Chamber Foundation in the Philippines has started AmCham CSR Excellence Awards this year to recognize and honour the companies that have implemented innovative programs. American Chamber of Commerce in Thailand started annual CSR Excellence Awards last year to promote corporate social responsibility among member companies. The Philippines' Asian Institute of Management organizes Asia's largest annual CSR conference that also includes CSR awards.

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<sup>10</sup> International Finance Corporation Business Issues bulletin and press releases 2004/2005

Vietnam, the Philippines, Thailand, Malaysia, Singapore and Indonesia governments have also launched United Nations' Global Compact, a multi-stakeholder initiative to promote corporate social responsibility through voluntary measures by companies.

## Promoting CSR in Cambodia: The SWOT

### THE SWOT ANALYSIS: AN OVERVIEW

#### Strengths and Weaknesses

##### *Strengths*

Cambodia has several attributes and factors that make the general environment conducive for the deployment of corporate social responsibility for the socio-economic advantage. The country has the following CSR enablers:

##### **Supportive CSR Environment**

1. Cambodia now enjoys political stability crucial for attracting foreign investors and tourists.
2. The government is visionary, very supportive and open to innovative initiatives which can help the country achieve sustainable development. For example, Cambodia was the first country in the world where the government agreed to implement ILO monitoring of garment factories. As a result, garment industry quickly grew to become nation's top foreign exchange earner and the largest employer in the organized sector.
3. Being a relatively small country is also an advantage. Large corporations and even development organizations can use Cambodia as an incubator for new CSR initiatives. Due to smaller size, it's is easy to see the impact of a program. ILO-BFC program is a good example.

##### **Vibrant SME landscape and dynamic economic sector**

4. Cambodia has a large number of micro, small and medium enterprises who dominate the economic landscape in provinces. In recent years, due to work done by organizations such as Asia Foundation, these small enterprises have organized themselves into cross-sector business associations in Kampong Cham, Kampong Chhnang and Kampot and similar business associations are coming up in other provinces. These associations provide an entry point for reaching out to small businesses in provinces for CSR initiatives targeted at small and medium enterprises.
5. Multinational companies from the US and EU which have started business operations in Cambodia are implementing some of their global CSR principles in Cambodia and some of them may be well placed to act as a role model for local and regional companies.

6. Cambodia is planning its first stock exchange. Companies in certain sectors such as finance, apparel, tourism and telecom are keen on getting listed and some of them are slowly realizing the importance of CSR and corporate governance in order to build good image and attract investors.
7. A solid groundwork laid down by the ILO-BFC program in the garment manufacturing sector which is currently the highest export revenue earner and employs 350,000 people, mostly young uneducated girls coming from the rural Cambodia, provides an excellent framework for CSR in the supply chain. The model can be used to develop other sectors of manufacturing for the global supply chain such as footwear, toys and electronics to name a few.
8. Cambodia has a higher penetration rate for mobile phone services which enables organizations to offer innovative services such as banking, for the rural customers and communities using mobile technology.

### **Socially responsible businesses**

9. There are already a number of social enterprises and microfinance institutions in Cambodia which demonstrate that a profitable business can be built around social objectives.

### **Supportive stakeholders**

10. Industry associations are willing to partner with public sector and civil society to support CSR initiatives. Garment Manufacturers Association of Cambodia (GMAC) and Cambodia Federation of Employers and Business Associations (CAMFEBA) have partnered with various organizations to offer outreach and support for several such programs. For example, GMAC works closely with a range of organizations to implement decent working conditions standards in member-factories. CAMFEBA, for example, has taken initiatives to eliminate worst forms of child labour. This year, it also conducted a study to understand what companies in other Asian countries are doing to address child labour as part of their corporate social responsibility program.
11. A strong presence of civil society or non-governmental organizations provides a crucial linkage with local communities for businesses interested in taking up community-based projects under their corporate social responsibility programs. NGOs can bring local knowledge, goodwill among the local community, understanding of local needs and challenges and an extensive network across the country- all of this is desired by companies willing to engage in community development projects.
12. A strong presence of NGOs is also an incentive for companies to not to abuse the system especially in large projects as NGOs act as a watchdog.

13. A strong presence of development and donor organizations offers international knowhow of community development coupled with local expertise, research, funding resources, capability building skills and valuable partnerships with local as well as international organizations. All this can be tapped by companies by forging meaningful partnerships to implement their CSR programs.

### ***Weaknesses***

There are a number of negative attributes and factors which are preventing or inhibiting the deployment of CSR in Cambodia and restricting the growth, expansion and competitiveness of the private sector. The main CSR constraints are:

#### **Lack of capacity**

1. The awareness of CSR is relatively low in Cambodia. The awareness is in particular lower among the businesses owned locally or by regional companies. If at all, CSR is perceived as philanthropy or social work rather than a strategic business tool to increase competitiveness. Businesses are not aware how CSR can help their businesses in becoming more competitive.
2. Local enterprises lack access to information about international markets and the role played by corporate social responsibility, sustainability and climate change in determining products, services and suppliers.
3. Since CSR is not broadly practiced in Cambodia, there are few role models or success stories.
4. The concept of social enterprise is still in infancy leading to only a very small number of social enterprises. As a result, social equity funds are not able to find suitable social enterprises for investments.

#### **Difficult business environment**

5. Due to weak infrastructure and higher utilities prices, the cost of doing business is higher in Cambodia which strains companies' resources and creates a psychological barrier as companies perceive CSR as an additional cost.
6. In spite of the large number of small and medium enterprises, private sector is not fully developed yet.

#### **Poor governance**

7. High incidence of informal payments in transacting with government departments makes it challenging for businesses to establish and practice anti-graft policies.

8. Lack of transparency in natural resource extraction contracts, as the contracts are kept confidential, makes it challenging to promote CSR in that sector if companies choose not to disclose information on their extractive operations.
9. Cambodia lacks a national body or forum to drive corporate social responsibility by facilitating dialogues, setting expectations and standards, networking with regional and global corporate social responsibility organizations, capacity building, recognition of CSR initiatives, sharing of best practices and continuously finding ways to promote corporate social responsibility among various sectors and overcoming challenges.

### **Regulatory environment**

10. Cambodia lacks a robust regulatory framework which is necessary to create an environment and provide motivation for embracing corporate social responsibility programs. Some of the examples of a total lack of regulation or where reform is required include: tourism law, insurance law (corporate governance and disclosure), corporate governance rules (accounting, reporting and disclosure) environment law, natural resources extraction laws and anti-corruption law.
11. Low efficiency in law enforcement does not provide required motivation for businesses to comply with laws.

### **Threats and Opportunities**

#### ***Threats***

The following attributes and factors create a threatening environment for the competitiveness of Cambodia if various sectors fail to adopt CSR:

#### **Reputational risk**

1. The image of the country will suffer if the international community perceives the Cambodian private sector as not engaged in responsible business practices.
2. Country's place on international rankings such as Transparency International's Corruption Perception Index will slip affecting the image among investors and international community.
3. Supply chain security can be compromised if the garment industry and other actors in the supply chain such as logistics companies do not implement anti-terror measures expected from trades such as the Custom and Trade Partnership Against Terrorism (C-TPAT) guidelines. An incident of terrorist activity using the supply chain in

Cambodia can seriously damage the credibility of factories and other supply chain actors in the country.

### **Limited private sector growth and expansion**

4. The private sector will not be able to reach its full potential as businesses will find it difficult to expand without committing to the principles of responsible business.
5. International expansion of Cambodian businesses will be difficult if local companies are not able to meet CSR standards and stakeholder expectations in importing countries.
6. Vertical integration of garment industry such as establishing textile mills, dyeing plants etc will not be possible if the industry does not meet international environmental and safety standards. For example, they will need to be in compliance with new Euro norms on chemical standards.
7. Lack of sound CSR practices at workplace leading to shortage of trained manpower, companies' inability to retain employees, high employee turnover and difficulty in recruiting qualified employees can seriously impede private sector's growth and expansion.

### **Market access and competitiveness impacted**

8. Exports will suffer if local manufacturers do not meet CSR standards of foreign customers which are becoming increasingly common in a variety of industries.
9. Garment industry's inability to implement strict environmental standards will eventually make it uncompetitive as more and more western retail brands are seeking to source from environmentally sound suppliers and working toward 'greening' of their supply chains.
10. As other south-east Asian countries continue to establish frameworks, policies and mechanisms for promoting CSR, they will likely be at a competitive advantage to attract high quality investment from large western multinational companies who are committed to doing business in a responsible manner.

### **Business environment may worsen**

11. Shunning corporate social responsibility will only deteriorate the business environment by encouraging informal payments, lack of transparency, non-compliance and greedy business practices.



12. If companies have to make informal payments, some of them may be tempted to cut down on other costs such as employee wages and benefits, health and safety at workplace and so on. This can lead to hostile worker-employee relations and industrial action.

### **Foreign investment affected**

13. Western multinational companies are legally required to have anti-corruption policies for their foreign operations. Widespread corruption will make it more difficult for the country to attract such companies to set up operations.
14. Existing western multinational companies may decide to close operations or halt expansion if they lose out to local competition because of not willing to make informal payments while local companies continue to indulge in corrupt practices.
15. Cambodia plans to have a stock exchange next year. That will see an emergence of publicly-listed and traded companies. A stock exchange will also create a new class of retail investors as well as create a financial industry comprising of brokers, investment banks and hedge funds. A weak corporate governance environment can pose serious threat to the development, stability and credibility of private sector by potential scandals. Corporate scandals can scare away potential foreign investors.

### **International integration affected**

16. Lack of strong CSR programs may make it more difficult for businesses to meet country's obligations under the World Trade Organization membership in the area of intellectual property rights as envisaged in the TRIPS agreement leading to trade disputes.
17. Technology companies will be less inclined to set up operations in Cambodia if CSR practices and enforcement are weak in protecting their intellectual property rights.

### ***Opportunities***

Corporate Social Responsibility can potentially increase the competitiveness of several sectors in Cambodia and open up new business opportunities resulting in a more broad-based socio-economic development while ensuring a healthy growth of private sector.

This report discusses main opportunities in greater detail in later sections. However, a brief description of these opportunities is listed below:

1. **Sustainable tourism:** Promoting eco-tourism, sustainable tourism and responsible tourism practices can significantly facilitate a healthy growth of the tourism industry while positively impacting socio-economic development, poverty alleviation, good quality employment generation and conservation of biodiversity and wildlife.

2. **Organic agriculture:** Organic farming can open up new export opportunities as an increasing number of consumers worldwide are demanding more natural and sustainable products.
3. **Fair trade:** Promoting fair trade can empower rural producers, spur sustainable development and open up export opportunities as there is a growing demand in developed countries for fair trade products imported from developing countries.
4. **Social Enterprises:** Encouraging growth and expansion of social enterprises can help solve a range of socio-economic problems that social enterprises aim to address.
5. **Pro-poor businesses:** Cambodia's large rural population and an increasing number of urban poor through migration offer a unique opportunity for innovative products and services aimed at the poor consumers. Visionary companies and organizations can seize this opportunity to set up profitable businesses which then can be replicated in other countries.
6. **Microfinancing:** Promoting microfinancing can significantly improve rural livelihoods and reduce poverty. Innovative use of microfinancing and creative multi-stakeholder partnerships between private, public and NGO sectors can help solve complex problems of unemployment, energy shortage, digital divide and access to services among the poor.
7. **Human Resources Development:** Sound CSR practices at workplace can significantly improve employee retention, reduce hiring and training costs, improve efficiencies and productivity and help create a competitive workforce.
8. **Socially Responsible Investing:** By encouraging wider CSR practices across industries, the country can attract investments by international Socially Responsible Investing (SRI) funds which in turn will expand private sector, generate employment and spur sustainable socio-economic growth. Similarly, encouraging Social Enterprises can attract foreign investment through social equity funds.
9. **Garment industry:** By going beyond compliance and embracing broader and longer term corporate social responsibility principles, garment factories can improve productivity, industrial relations and overall profitability.
10. **Greening of supply chain:** By encouraging green initiatives in the garment supply chain, factories can hope to participate in the growing global business of clothing with eco-labels.

11. **Manufacturing:** Ensuring decent working conditions using the ILO-BFC framework, export-oriented manufacturing can be expanded into new products such as toys, sports goods, gift-items and accessories.
12. **Natural resource extraction:** Promoting corporate social responsibilities, including transparency and governance, in the natural resources extraction industry can significantly minimize the negative impact on environment and increase revenues for the government which then can be used for development projects.
13. **Sustainable forestry:** Promoting sustainable forestry practices and certification schemes can help achieve government's National Forest Sector Policy goals of environmental protection, biodiversity conservation, poverty reduction, economic development and good governance. Additionally, it can help mitigate climate change risks by carbon sequestration.
14. **Agriculture / Agro-processing industry:** Contract farming, using the model of BAT's tobacco leaf farming, for other farm crops such as rice can significantly improve farm yields and farmers' income while at the same time ensuring larger volumes of reliable supply for processing plants such as rice mills. Geothermal Indicator labelling can bring enhanced brand equity and increased competitive advantage for Cambodia's unique products such as Kampot pepper and Kompong Speu sugar palm.
15. **Energy efficiency initiatives:** By encouraging energy efficiency and use of renewable energy can address the energy supply problems, reduce energy costs in the long run, reduce reliance on imported fossil fuel and reduce carbon emission aiding climate change mitigation.
16. **Construction industry:** Construction industry can benefit from improved workplace safety, technical human resources development, improved relations with community and design innovation (eco-friendly designs).
17. **Clean Development Mechanism:** By promoting UNFCCC's CDM mechanism and market-driven Voluntary Emission Reduction schemes for carbon trading can reduce emissions as well as open up a new source of foreign exchange earnings. This can also help attract foreign investment for CDM projects and bring in cleaner technologies for promoting low carbon economy.
18. **Community investment:** By encouraging CSR, more and more companies would be inclined to participate in community development work through employee volunteers and funding community projects.

- 19. Good governance:** Embracing international standards of good governance, transparency and disclosures across sectors and more importantly in the private sector can help the country set up robust financial institutions and stock exchanges, attract foreign investment, ensure a healthy and sustainable growth of private sector and protect the country from corporate scandals and frauds.
  
- 20. Young workforce:** Cambodia has a young workforce with 60% of population under the age of 25. The young appear to be more receptive to new ideas and learning and can assist in inculcating CSR culture in organizations. Almost 300,000 new workers join the workforce every year. Workplace related CSR practices can significantly improve working conditions in all sectors and lead human resource development that is needed for a healthy growth of the private sector.

## SWOT ANALYSIS

### An Assessment of

#### Promoting Wider CSR Practices in Cambodia for Competitive Advantage

<i>Positives</i>	<i>Negatives</i>
<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>1. Political stability.</li> <li>2. Government's openness to supporting innovative business approach.</li> <li>3. Multinational companies emerging as a role model for CSR.</li> <li>4. Groundwork laid by ILO-BFC program.</li> <li>5. High mobile phone penetration for offering innovative services to the poor.</li> <li>6. Industry associations interested in CSR.</li> <li>7. Easier outreach to SMEs through their associations.</li> <li>8. Strong presence of civil society.</li> </ol>	<p><b>Weaknesses</b></p> <ol style="list-style-type: none"> <li>1. Low awareness of CSR among businesses and stakeholders.</li> <li>2. Absence of a national level CSR promotion body or forum.</li> <li>3. CSR perceived as an additional cost.</li> <li>4. Lack of access to information on global developments in CSR.</li> <li>5. Private sector not fully developed yet.</li> <li>6. High incidence of informal payments in government transactions.</li> <li>7. Lack of transparency in extractive industries.</li> <li>8. Social enterprise sector is in infancy resulting in fewer investment opportunities for social equity funds.</li> <li>9. Lack of enabling regulatory environment.</li> <li>10. Inadequate enforcement of laws.</li> </ol>
<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>1. Sustainable tourism</li> <li>2. Organic farming</li> <li>3. Fairtrade</li> <li>4. Social enterprises</li> <li>5. Pro-poor business models/inclusive business</li> <li>6. Microfinance institutions</li> <li>7. Socially Responsible Investing</li> <li>8. Improved industrial relations and productivity in garment industry</li> <li>9. Greening of supply chain</li> <li>10. Expansion of ethical manufacturing</li> <li>11. Responsible gaming industry</li> <li>12. Sustainable forestry</li> <li>13. Energy efficient initiatives</li> <li>14. Clean Development Mechanism projects</li> <li>15. Community investment</li> <li>16. Good corporate governance</li> </ol>	<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>1. Reputational risk for country's private sector.</li> <li>2. Private sector will not be able to reach its full potential.</li> <li>3. International expansion and integration of Cambodian businesses will be difficult.</li> <li>4. Exports may suffer if international consumers' and stakeholders' expectations of ethics are not met.</li> <li>5. Competitiveness of garment industry may be affected if environmental measures are not implemented.</li> <li>6. Vertical integration of garment industry will be difficult without strict environmental standards.</li> <li>7. Losing out to neighbouring economies which are more proactive in adopting CSR.</li> <li>8. Human resources development will be affected.</li> <li>9. Corruption will gain deeper roots if CSR is shunned.</li> <li>10. Country's international ranking may deteriorate making it unattractive for foreign investors.</li> <li>11. Corruption will inhibit investment by western multinational companies.</li> <li>12. Weak corporate governance can affect the development and stability of the proposed stock exchange.</li> <li>13. Lack of responsibility measures can create complex social problems from the casino industry.</li> <li>14. Technology companies will be less inclined to invest if intellectual property regime is weak.</li> <li>15. Supply chain security may get compromised creating international embarrassment.</li> </ol>

## Current Barriers to Promoting CSR

Many of the factors identified as weaknesses and threats are also the barriers which hinder the outreach of current CSR programs for competitive advantage as well as act as a disincentive for the development of new ones. Additional barriers were also identified during stakeholder consultations based on stakeholders' perceptions.

These barriers have a direct impact on competitiveness of businesses which are not able to deploy CSR to gain advantage in the marketplace. The reasons for their inability to deploy CSR could range from poor understanding of the concept and lack of resources to inadequate regulatory enablers and a difficult business environment.

This study identified the following main barriers to promoting wider CSR practices in Cambodia:

- A. Capacity-related barriers
- B. Financial barriers
- C. Regulatory and institutional barriers
- D. Business environment-related barriers

A brief description of the above barriers is given below.

### A. CAPACITY-RELATED BARRIERS

This perhaps is the most significant barrier in promoting and practicing CSR in Cambodia as the private sector is still evolving and the concept of CSR is not understood well. Some of the key observations are:

1. **Lack of manpower trained in CSR / lack of CSR expertise:** CSR being a new area, local experts in CSR are not available. Similarly, managers who are supposed to promote CSR practices in companies do not have requisite training or expertise in CSR.
2. **Lack of leadership and vision:** Companies' top management lacks vision and leadership necessary to understand and articulate strategic advantages of doing business responsibly and is more focussed on short term profit goals.
3. **Lack of information and awareness:** Lack of awareness about corporate social responsibility and how it impacts businesses is a key impediment in promoting CSR practices.

4. **Narrow understanding of CSR:** Inadequate understanding of CSR makes local businesses equate CSR with charity work or social work and hence not a strategic component of business operations.
5. **Misconceptions about CSR:** There is an erroneous perception that CSR is a cost. There is also widely held belief that CSR is only for multinational organizations or at best for large organizations.

## **B. FINANCIAL BARRIERS**

1. **High cost of certifications:** Small and medium sized companies find the cost for various CSR related certifications, such as ISO 14000, SA8000, WRAP, Organic labelling, sustainable forestry, fair trade, eco-tourism, sustainable tourism etc, unaffordable.
2. **'CSR is an additional cost' perception:** Businesses hold this view that CSR requires heavy financial expenditure. Those who think CSR means charity, philanthropy and sponsorships, obviously link it to expenditure with no tangible return. Those who think CSR means compliance, in other words, paying fair wages and benefits and providing decent working conditions, also link CSR action with expenditure.
3. **Return on investment not clear:** Businesses do not have a clear understanding of how investing in CSR measures, whether in the form of financial or time resources, can add to the bottom line or top line. Lack of clarity on return on investment results in 'business as usual' attitude.
4. **Training and consulting costs:** It is perceived that hiring CSR consultants for training and advisory is expensive as such expertise is not available locally and needs to be hired from abroad.

## **REGULATORY AND INSTITUTIONAL BARRIERS**

It must be clarified here that there are two sides of regulatory and institutional barriers that may affect the promotion of CSR in a country:

- a) Absence of relevant laws or inadequate and ambiguous laws
- b) Poor enforcement of laws. This may include lack of resources and training for the implementing institutions and judiciary.

China has excellent laws, but poor enforcement means companies can get away with corrupt practices. The same observation can be made about India. But both countries also present examples of growing number of companies which are voluntarily adopting CSR practices as they realize its benefits.

Unambiguous laws coupled with strict enforcement can produce good compliance but not necessarily promote CSR which goes beyond compliance. A good example is the garment industry in Cambodia where clear labour laws efficiently monitored by ILO-BFC have resulted in high degree of compliance. Higher compliance has produced a very positive impact on working conditions in garment factories and has helped score a healthy growth for the garment export industry.

Factory owners have submitted to compliance monitoring in order to meet buyers' demands and export license requirements, but they have not been encouraged to go beyond compliance and adopt strategic and voluntary CSR practices. As a result, the industry has not been able to address the problems of low productivity, human resource development and industrial relations which can jeopardise long term sustainability and competitiveness of the sector.

This means that the role of regulations in promoting CSR should not be exaggerated, though their importance in creating a level-playing field, setting minimum compliance standards and creating an enabling environment cannot be undermined. A sound regulatory environment can provide for a necessary ground on which CSR practices can be built by companies.

A detailed analysis<sup>11</sup> of existing and desirable laws in Cambodia is not in the scope of this study. However, the study aims at assessing macro regulatory-environment to identify key regulatory and institutional barriers.

Many of the regulatory and institutional barriers identified in this study are the same as the ones identified by numerous other studies on the private sector development. These barriers not only affect the promotion of CSR, they equally hurt the growth and development of private sector in Cambodia.

**Given below are examples of key regulations that have a direct bearing on corporate social responsibility and their status in Cambodia:**

- ◆ **Labour laws:** Deal with workplace issues including child labour, forced labour, minimum wage, over time, working hours, leave and other benefits, freedom of association, workers rights, social security, employee contracts, work rules, disciplinary procedures, health and safety etc.

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<sup>11</sup> For detailed study see "Southeast Asia Commercial Law and Institutional Reform & Trade Diagnostics-Cambodia by Booz, Allen, Hamilton /USAID, April 2007



**Status in Cambodia:** A reasonable set of laws, good enforcement in garment factories but cannot be said so for other sectors. Social security benefits/health insurance scheme needs considerable improvement.

- ◆ **Environment protection law:** They set out minimum rules for air emissions, water pollution prevention, noise pollution control, disposal of solid waste and hazardous waste, recycling, conservation, health and safety, storage and handling of chemicals, restrictions on harmful chemicals, environment impact assessment etc.

**Status in Cambodia:** Law on Environmental Protection and Natural Resources Management is in place. It should include mandatory environment impact assessment for industrial and environmentally sensitive sectors. It is perceived that existing environmental regulation for hotels is weak as many of its provisions do not apply to hotels below three-star category and smaller hotels and guest houses continue to pollute the environment.

- ◆ **Company law and corporate governance:** Company law relates to the registration and setting up of a business. Corporate governance relates to accounting standards, disclosure norms, appointment of directors, role and responsibilities of directors and board of directors, remuneration of directors, rights of minority shareholders, annual reporting requirements etc.

Corporate governance rules in line with international trends increase the confidence of international investors and financial institutions and facilitate investment.

**Status in Cambodia:** The Company Law and Corporate Governance law is in place. It lacks effective disclosure norms. Company registration procedures are not transparent. All policies, rules, regulations and procedures need to be posted and updated on the Ministry of Commerce website.

- ◆ **Anti-corruption law:** They aim at rooting out corruption, extortion and bribery in all forms. Anti-corruption laws may include procedures for investigating and combating corruption, money laundering and terrorist financing.

**Status in Cambodia:** There is a draft law waiting to be passed by parliament. It's a clear negative for the promotion of CSR in the country.

- ◆ **Anti-competition law:** The aim of anti-competition laws is to protect consumers and provide opportunity to entrepreneurs to engage in a fair

competition in the marketplace. Key features of anti-competition law include measures to prevent monopolies and cartels, prohibition of agreements and practices that restrict or kill competition and rules for mergers and acquisitions to prevent formation of monopolies.

Main benefits of anti-competition policy include more efficient allocation of resources in an economy, lower prices and smooth supplies for consumers and lower barriers of entry for entrepreneurs leading to more vibrant development of private sector.

Competition policy also promotes good governance in the corporate sector as well as in government by diminishing the opportunities for rent-seeking behaviour and the corruption that often accompanies it.<sup>12</sup>

Vietnam, Thailand, Indonesia, Singapore and Philippines are the only countries at the moment in South-east Asia which have introduced anti-competition regulations.

***Status in Cambodia:*** Does not exist. It's a clear negative for the promotion of CSR.

- ◆ **Intellectual Property Rights regulations:** Respecting intellectual property has become an important aspect of corporate social responsibility especially among multinational companies.

Intellectual property laws relate to protection of intellectual property rights by introducing anti-counterfeiting and piracy measures and rules to protect copyrights.

Intellectual Property includes patents, copyright, design right, registered designs, trade-marks, inventions, designs, drawings, performances, computer programs, semiconductor topographies, plant varieties, confidential information, business names, goodwill and the style of presentation of goods or services etc.

It is important to have a robust intellectual property rights regime to attract high technology industries such as electronics.

All Asean nations who are members of WTO, and that includes Cambodia, have introduced intellectual property rights in order to be in compliance with WTO-TRIPS. But the enforcement remains a problem in many of these countries.

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<sup>12</sup> Competition policy in developing countries: an Asia Pacific perspective, by Pradeep S. Mehta

**Status in Cambodia:** The Law on Copyrights and Law on Trademarks are in place. But enforcement is weak and counterfeits are openly sold in the markets. It's a negative for the promotion of CSR in the country.

- ◆ **Investment related regulations:** These include clear investment policies, investment transparency standards and incentives for investments- both domestic and foreign direct investment. Key aspects include ease of registration, time-bound processing of investment applications, fiscal and non-fiscal incentives for investment in priority sectors such as tax credits, income tax holidays, duty exemption on imported raw material and equipment, ease of hiring foreign labour and multiple-entry visa facilities for managers. Other measures may include protection of foreign investment from seizure and nationalization, protection of their intellectual property and a transparent dispute resolution process. Foreign investors may also be allowed to repatriate profits, capital and other income.

Obligations of investors may include compliance with all local laws and running their business in a responsible way in relation to environment, workplace practices and impact on community.

**Status in Cambodia:** The Law on Investment is in place. However, various commercial laws, policies, rules, regulations, amendments, procedures and relevant court judgements are not centrally available on a website in English creating ambiguities.

- ◆ **Bankruptcy law:** Bankruptcy is a legally declared inability or impairment of ability of an organization or an individual to pay their creditors. Bankruptcy law is intended to provide protection to creditors and prevent fraud by companies and individuals. Bankruptcy regulations ensure a fair and orderly execution of bankruptcy claims and division of a debtor's assets among creditors.

**Status in Cambodia:** Cambodia does not have a bankruptcy law, a negative for the promotion of CSR. There is a draft law though waiting to be passed by parliament.

- ◆ **Anti-money laundering and counter-terrorism finance law:** Money laundering is the processing of criminal proceeds and disguising the origin of money. Money laundering may involve funds from the organized crime syndicates, bribery and embezzlement by corrupt government officials and politicians, undeclared income etc. Anti-money laundering regulation is aimed at preventing and controlling financial crimes and addressing security threats from terrorists.

Money laundering can seriously affect the credibility of financial institutions. The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards.<sup>13</sup>

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development.<sup>14</sup>

*Status in Cambodia:* There is a draft Anti-money laundering and anti-terrorism financing law waiting to be passed. Cambodia has yet to ratify the UN Convention Against Transnational Organized Crime.

- ◆ **Forestry laws:** Appropriate policies, legislation and regulations are necessary for an effective protection and sustainable use of forest and natural resources. Stringent forestry laws are needed to regulate commercial activities in the forest area such as mining, plantations and logging.

Forest regulations include the forest, soil and water conservation, wildlife protection, bio-diversity conservation, prohibition of open burning, restrictions on logging, timber theft and fraud, regulating fishing and hunting in forest areas and rights of forest communities.

Clear forest laws are necessary to spell out the minimum compliance needs for companies engaged in forest related enterprise to minimize their negative impact on environment and communities.

*Status in Cambodia:* Forestry Law is still under preparation. It's a negative for the promotion of CSR in forest-related sectors.

- ◆ **Tourism law:** Tourism law and regulations need to incorporate elements of sustainable tourism to minimize negative impact on environment, bio-diversity, wildlife, water and land resources, ecology, preservation of heritage and respect for local culture and communities.

Clear regulations to ensure sustainable tourism practices are necessary to provide a compliance framework and incentives for responsible behaviour by various tourism operators.

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<sup>13</sup> The Financial Action Task Force on money laundering (FATF), G-7

<sup>14</sup> The Financial Action Task Force on money laundering (FATF), G-7

**Status in Cambodia:** A Tourism Law has been drafted and needs to be passed. Absence of tourism law is a negative for the promotion of CSR in the tourism sector.

- ◆ **Organic farming law:** Organic farming enhances global competitiveness, food safety and security, increases productivity and environmental integrity.

A sound organic farming regulation that includes establishment of a national organic farming program and a central authority, compliance requirements of organic standards, organic certification and accreditation, labelling, research and development and market promotion and networking can create an enabling environment for the development of the sector in a responsible manner.

**Status in Cambodia:** Does not exist. Lack of organics regulations is a negative for the promotion of CSR.

- ◆ **Product quality and safety regulations:** Recent scandals involving product safety and quality in China indicate that a lack of stringent regulations on product safety and quality can bring a massive disrepute to a country and its industry.

Countries which are keen to establish and grow export industries must put in place a strong legislation, regulatory framework and enforcement mechanism to avoid international embarrassment. Product quality and safety regulations include minimum quality standards for various products/sectors in line with international standards, accurate labelling, restrictions on using harmful ingredients and chemicals and establishing inspection mechanisms.

**Status in Cambodia:** Law on the Quality and Safety of Products, Goods and Services is in place. Enforcement remains weak. Weak enforcement of these regulations is a negative for the promotion of CSR.

- ◆ **Casino/Gambling law:** Many Asian nations, including Cambodia, are looking at casinos as a lucrative source of revenues. Cambodia has the fourth largest number of casinos in Asia after Macao, Philippines and South Korea.

Problems associated with casino industry include social ills such as gambling addictions, gambling-induced indebtedness, prostitution and trafficking, crime and money laundering have prompted international standards and codes of conduct on responsible gambling. Some countries, such as Singapore and even Macau, have started introducing regulations to minimize negative impacts of casino industry and to prevent criminal activities.

Casino regulations include setting up a casino regulatory authority, strict licensing rules, protection of vulnerable sections of society, prevention of problem gambling, establishment of problem gambling counselling centres, rules for junket operators and anti-money laundering measures.

***Status in Cambodia:*** There is no specific law addressing the casino industry issues. Lack of a clear law is a negative for the promotion of CSR in the gaming sector.

#### **Current status of the CSR-related laws in Cambodia**

The following laws or decrees have been introduced in Cambodia:

- The Labour Code
- The Law on Investment
- Law on the Quality and Safety of Products, Goods and Services
- Law on Mineral Resource Management and Exploration
- The Company Law and Corporate Governance
- Intellectual Property Rights:
  - The Law on Copyright
  - Trademark Law
- Law on Environmental Protection and Natural Resources Management

Includes decrees/sub-decrees on:

- Solid Waste Management
- Water Pollution Control
- Environment Impact Assessment
- The Control of Air Pollution and Noise Disturbance

#### **Draft laws**

- Tourism Law
- Anti-corruption law
- Anti-money laundering and anti-terrorism financing law
- Bankruptcy law

#### **Laws under preparation**

- Forestry Law
- Fisheries Law

### A Snapshot of legislations and how they impact elements of CSR

Legislation	Key Impact Areas
<b>Labour Law</b>	Working conditions
<b>Investment law</b>	Quality of investment, protection of investors, responsible investment.
<b>Environment Protection</b>	Sustainability, pollution, natural resource conservation, climate change, community rights and public health and safety.
<b>Company law and corporate governance</b>	Protection of minority shareholders, disclosure and transparency.
<b>Anti-corruption</b>	Bribery, fraud, embezzlement, investor confidence, unfair competition.
<b>Anti-competition</b>	Investment climate, monopoly, unfair competition, difficulties for SMEs, consumer rights.
<b>Bankruptcy</b>	Fraud, rights of creditors, high risk in lending, foreign direct investment
<b>Anti-money laundering and anti-terrorism financing</b>	Crime, bribery, corruption, embezzlement, tax evasion, smuggling, insider trading, credibility of financial sector, terrorism.
<b>Casino/gambling</b>	Money laundering, crime, gambling addiction, broken families, indebtedness.
<b>Organic farming</b>	Sustainability, environmental impact, food safety and security, certifications and standards.
<b>Fairtrade</b>	Certifications and standards, socio-economic development.
<b>Tourism</b>	Sustainability, environmental impact including natural resource conservation (water, wildlife, ecosystem), socio-economic development of local communities, heritage protection, working conditions.
<b>Forestry</b>	Sustainability, Environmental impact, climate change, illegal logging, community rights, soil erosion, wildlife.
<b>Product quality and product safety</b>	Consumer welfare, public health and safety, image of industry and country.
<b>Intellectual property rights</b>	Piracy
<b>Mineral resources and exploration</b>	Transparency, corruption, environmental impact, community rights.

#### Summary of regulatory/institutional barriers:

1. **Inadequacy of laws:** Some of the laws that create enabling environment for CSR as listed above are still not in place in Cambodia while some are in the draft form and waiting to be passed by the assembly.
2. **Weak enforcement of laws:** In Cambodia's context, weak enforcement of regulations is a key barrier in promoting compliance and therefore CSR. There is scepticism whether proposed laws on tourism and corruption will have any impact if the enforcement remains inadequate.
3. **Lack of resources and capacity for an effective monitoring/enforcement:** Business and sustainability related regulations, such as dealing with competition, corporate governance, intellectual property rights, organic farming, sustainable tourism, environment, quality standards and certifications, require sophisticated skills and expertise to monitor and enforce implementation. Currently, the public sector

does not seem to have the required skills and expertise for carrying the tasks of an effective monitoring and enforcement.

4. **Lack of tax incentives:** Currently, there are no tax benefits to promote CSR including sustainability and environmental excellence. The private sector feels such incentives will encourage more companies to practice CSR. But it must be noted that other countries also do not provide tax incentives for CSR or environmental compliance. So this should not be considered a serious barrier.
5. **Lack of a national level CSR framework or guidelines:** Currently, there is no national level CSR framework or set of guidelines to be used as a benchmark which companies can follow. It may be mentioned that national CSR frameworks being provided by the governments in other countries is rather an exception than a norm. Malaysia is an exception which has introduced a national CSR framework for publicly listed companies and government-owned enterprises.

#### **Business environment-related barriers:**

1. **Corruption:** Due to widespread corruption, multinational companies in Cambodia find it difficult to practice their anti-graft policies. Corruption also encourages unethical business practices and non-compliance among companies which believe they can get away with it by paying bribes.
2. **Fear of unfair competition:** Stakeholder consultations revealed that some companies are discouraged from engaging in good governance and CSR as they fear unfair competition from those which do not follow responsible business practices. The Clean Business Initiative aims to address this problem. (See more details on page 19)
3. **Compliance Vs CSR:** Ensuring decent working conditions in their supplier factories is a part of a wider corporate social responsibility program of western retailers. ILO-BFC monitoring helps them achieve their CSR objective of ethical sourcing. On the contrary, garment manufacturers consider monitoring program as a compliance requirement which has a narrow meaning with a negative connotation. Factories' inability to understand the difference between bare minimum legal compliance and CSR has created an erroneous perception that it creates problems rather solving problems.
4. **Fragmented industry:** In the case of tourism sector, the industry is quite fragmented with a variety of operators including hotels of various sizes, guest houses, travel agents, air lines and bus, taxi and tuk-tuk operators, making coverage and complete outreach difficult. Similar observation was made for the SME sector which is diverse



and scattered across the country, often not organized making access to them a challenge.

5. **Poor industrial relations:** There is an erroneous perception among businesses that promotion of CSR will lead to formation of unions and increase the incidence of industrial action such as strikes.
6. **Lack of rural infrastructure:** Poor access to electricity and transportation discourages companies to set up export businesses in rural areas by those companies which would otherwise like to participate in the development of rural areas.
7. **Lack of energy saving technology and equipment:** Some stakeholders said that it was not easy to find energy efficient technology, equipment and for example low emission vehicles if companies wish to take energy saving measures. For example, if a logistics company wishes to change its fleet to low-emission vehicles, it is very difficult to achieve in Cambodia.
8. **Finding reliable and competent NGO partners for implementing projects:** Not all NGOs have the required management skills to partner with the private sector for implementing a project in professional manner. Businesses find it challenging to identify and assess NGOs for partnering.
9. **Sustainability of a project:** The development sector is engaged in several pilot projects. But there is a lack of 'champions' to take over a project after a successful incubation or pilot programs. There is also a challenge of scaling up a successful initiative or pilot to cover the entire sector or replicate to other sectors. Equally challenging is finding finance for the venture.  
For example, C-BIRD project is not able to take off due to the above mentioned challenges.

## Overcoming the Barriers

A three-pronged action-plan is recommended to overcome barriers to promoting CSR in Cambodia for competitive advantage which include:

1. **Capacity Building**
2. **Advocacy**
3. **Regulatory and Policy Reforms**

1. **Capacity Building:** It is clear from the SWOT and stakeholders' views that the concept of CSR is relatively new in Cambodia for various actors. There is an immediate need to create awareness about CSR through workshops, seminars, training and dialogue.

Capacity building is required at the following levels:

- I. **Private sector:** To develop their understanding of the dynamics of CSR, its core principles, how it relates to their business goals, developing relevant CSR programs, implementation and measurement of these programs and how to communicate and report their CSR initiatives to various stakeholders.

Potential partners include key industry associations such as Chambers of Commerce, CAMFEBA, GMAC, Cambodia Microfinance Association, SME associations in provinces, Cambodia Hotel Association, Cambodian Bar Association and The Association of Banks in Cambodia.

- II. **Public sector:** To develop their understanding of the dynamics of CSR, global and regional trends, the role of public policy in CSR, socio-economic and environmental advantages of promoting CSR, how to prioritise CSR goals in line with national goals in collaboration with private sector and civil society, developing incentives for CSR, how to directly promote CSR by implementing responsible sourcing policies for government departments to encourage potential vendors to adopt CSR principles.

CSR training for key ministries (Ministries of Commerce, Tourism, Labour, Environment, Agriculture, Rural Development, Economy and Finance; Mines, Industry and Energy) and departments/agencies can help create champions in the public sector.

- III. **NGO sector:** To develop their understanding of the dynamics of CSR, benefits of promoting CSR in terms of socio-economic development and

environmental protection, how to collaborate with private sector in identifying and implementing most appropriate CSR programs and how to promote good governance and transparency in their own organizations to set up an example for the private sector.

Key civil society actors in Cambodia such as ADB, WB/IFC, Asia Foundation, Oxfam, ILO-BFC, GTZ, SNV, PACT, CEDAC, local NGOs and various social enterprises should be engaged in an ongoing dialogue through conferences and forums to seek their views as well as share challenges and opportunities with them.

- IV. **Customers:** To make them aware of the dynamics of CSR, how supporting responsible and ethical companies can better protect their rights and access to good quality services and product as well as have a positive impact on communities and environment.

This may not be an immediate priority but will become important in the coming years as domestic consumption goes up with increased prosperity.

- V. **Media:** Media has played a key role in generating awareness about CSR in the US, Europe, China and elsewhere. It is important to build capacity of media in Cambodia to understand the dynamics of CSR, global and regional trends, and identifying and reporting responsible business practices.

This can be achieved by organizing a workshop for local journalists and editors to facilitate their understanding of CSR which should include issues of sustainability, SRI and climate change.

- 2. **Advocacy:** Advocacy means actively supporting a cause or an idea or a course of action. Advocacy work, mainly through speaking out on CSR issues, is required to motivate and influence various actors to embrace and support the promotion of CSR in Cambodia. The advocacy initiatives should have an inclusive and engaging approach seeking an open dialogue among various stakeholders.

This would mainly include the following activities:

- I. Establishing a mechanism, such as a national CSR forum, for a continued dialogue among various stakeholders from private, public and civil society sectors on ways to facilitate the promotion of CSR.
- II. Creating platforms for learning, networking and information sharing and sharing best practices.

- III. Participating in national CSR agenda setting and raise relevant and material issues which facilitate or inhibit the development of CSR as the case may be.
- IV. Facilitating the articulation of stakeholder views and opinions on desired business behaviour and public policy administration.
- V. Identifying specific opportunities for promoting CSR in various business sectors and working with stakeholders to facilitate their implementation.
- VI. Facilitating national-level benchmarks and standards for CSR for various sectors.
- VII. Research, surveys and dissemination of CSR related news and information.
- VIII. Networking with regional and global CSR organizations, building partnerships and creating visibility for Cambodia's efforts on promoting CSR.
- IX. Annual Cambodia CSR Survey to gauge the progress and identifying areas for improvement.
- X. Introducing/facilitating recognition schemes such as annual CSR awards for various categories.
- XI. CSR Communication and reporting: An effective communication of CSR is of strategic importance for a company. Some of the main objectives of CSR communication include:
  - ◆ Influence stakeholder perceptions
  - ◆ Enhance reputation
  - ◆ Brand building
  - ◆ To attract investors
  - ◆ To attract SRI funds
  - ◆ To attract customers
  - ◆ To attract and retain talented employees

### CSR Reporting Trends

*France: Companies listed on the stock exchange are required to include a discussion of social and environmental impact of their business.*

*Britain: Pending Operating and Financial Reviews (OFR) will require listed companies to provide information on employees, social and environmental impact and community matters.*

*South Africa: Listed companies are required to report using the GRI guidelines.*

*Malaysia: Bursa Malaysia has introduced a CSR Framework for listed companies. Annual CSR Report by listed companies:*

- ◆ Employee motivation
- ◆ Better community relations
- ◆ Competitive advantage

The above objectives can be achieved by producing an Annual CSR Report by companies in Cambodia. A growing number of companies worldwide are engaging in producing an annual CSR report as they realize its benefits. Though, CSR Reporting is largely a voluntary decision on the part of the company, some governments are making CSR Reporting a requirement for listed companies. (See Box on page 50)

Global Reporting Initiative (GRI) guidelines on CSR Reporting provide the most widely recognized framework for CSR reporting. GRI has a generic guideline as well as guidelines for specific sectors.

Cambodian companies can be encouraged to start producing their annual CSR report and make it available through posting it on their websites and share it with their stakeholders using other communication platforms available to them. Companies can begin with a simple report and then gradually make it more comprehensive as they develop their CSR program.

3. **Creating a supportive legal environment:** There are already a number of initiatives in Cambodia where a range of development partners such as WB/IFC, ADB and USAID are working with various ministries to introduce laws and regulatory reforms. All laws needed to support CSR are already on their agenda and they should continue to work with the RGC to expedite legislations and reforms.

As an added measure, CSR workshops should be conducted for ministry officials to familiarise them with the benefits of CSR for Cambodia and how they can play a crucial role by creating a supportive legal environment. In addition, there should be a continuing dialogue with the public sector on policy reforms which will support promotion of CSR.

**Specific actions that should be considered to engage public sector to facilitate the development of supportive regulatory environment are:**

1. Continue to support current and new initiatives by other development partners to draft, introduce and enforcement legislations.
2. Organize general CSR workshops for key officials of ministries and agencies to create awareness.
3. Organize specialized CSR workshops for important sectors to familiarize with the unique CSR issues and opportunities in specific sectors. Examples of such specialized training would include Ministry of Tourism (sustainable tourism), Ministry of Commerce (market access, certifications

and standards, private sector growth, international trade), Ministry of Environment (environmental impact, climate change and low-carbon economy), Ministry of Economy and Finance (SRI, Corporate Governance).

4. Introduce voluntary norms and standards wherever there are regulatory gaps in consultation with key stakeholders. Also consider promoting internationally accepted certifications and standards such as SA8000, GRI, ISO 14000, WRAP, OHSAS 18000, HCAAP, Fairtrade, Organic certifications, sustainable tourism certifications, sustainable forestry certifications etc.
5. Include ministry representatives in the National CSR Forum (discussed below) to engage in multi-stakeholder dialogue and feedback.

## **Recommended mechanism for overcoming barriers**

### **National CSR Forum**

Considering the extensive and complex nature of barriers, it is recommended that a multi-stakeholder National CSR Forum should be created consisting of key stakeholders. The forum can then enlist champions from various sectors to address specific barriers in a collaborative manner. This will also create a national inventory of all available resources and skills necessary to promote CSR for increasing the competitiveness of Cambodia in general and its industries in particular.

### **Potential champions/partners to overcome the barriers may include:**

1. MNCs and local companies which already have a CSR framework and who can share their experience and best practices. Examples include BAT, Coca Cola, Mobitel and ANZ Royal. In addition, services of professional CSR trainers may be used to develop local skills and competencies based on needs assessment. Leaders of industry associations and chambers of commerce can act as a catalyst to bring their members and CSR champions together and facilitate capacity building activities.
2. International development organizations such as UNDP and the World Bank/IFC are best placed to take the lead for the advocacy work on account of their worldwide work in promoting CSR. They can be aided by other international organizations which are involved in private sector development and sustainability work. Examples of such organizations include the Asia Foundation, ADB and Oxfam.

It will be important to engage private sector leaders, industry associations, local NGOs, media, public sector and existing high level forums such as GPSF to make advocacy more effective.

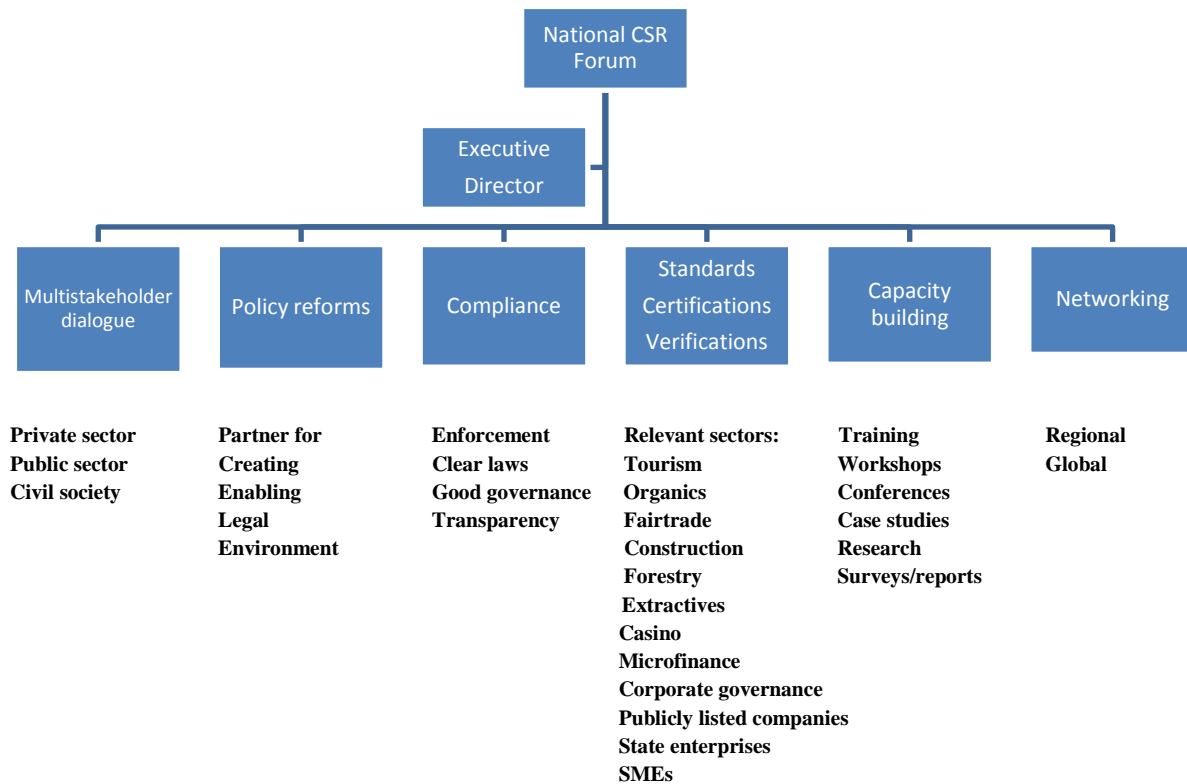
3. CSR directly complements the goals of some ministries. They can champion CSR in their respective sectors. Potential champions include:
- Ministry of Commerce: CSR aligns with their goals of competitiveness of industries and increased foreign trade.
  - Ministry of Environment: CSR aligns with their goals of sustainability, environment protection, conservation and climate change mitigation.
  - Ministry of Economy and Finance: CSR aligns with their goals of increasing foreign direct investment, SRI and corporate governance.
  - Ministry of Labour and Vocational Training: CSR aligns with their goals of better working conditions and human resources development.
  - Ministry of Agriculture, Forestry and Fisheries: CSR aligns with their goals of the development of the agriculture, increased productivity, farming technology and growth of agro-industry sectors.
  - Ministry of Mines, Industry and Energy: CSR aligns with their goals of a disciplined growth of extractives industry, increased revenue and transparency.
  - Ministry of Tourism: CSR aligns with their goals of the disciplined growth of tourism sector, competitiveness, sustainability and development of high-end market segments such as sustainable tourism, eco-tourism and conservation of heritage sites.
  - Ministry of Rural Development: CSR aligns with their goals of increasing private sector investment in rural areas through microfinance, pro-poor business models, social enterprises and projects like C-BIRD.
  - Ministry of Land Management, Urban Planning and Construction: CSR aligns with their goals of better land planning and usage, sustainability, building safety, development of local construction industry and a positive impact on communities.

### **What will the National CSR Forum do?**

The National CSR Forum will primarily play the role of a facilitator by bringing together diverse stakeholders for a continued dialogue on national CSR issues including framework, strategies, standards, monitoring, capacity building and regulatory and policy reforms.

The structure and scope of the National CSR Forum should be discussed among stakeholders. But a suggested broad scope would look like as illustrated on the next page.

## Scope and structure of National CSR Forum





## Sectoral Analysis of CSR Opportunities in Cambodia

A brief analysis of key sectors of economy is presented below to demonstrate how CSR deployment can increase their competitiveness. The study focussed on the following sectors on account of their relevance to socio-economic development of Cambodia:

- I. Garment industry
- II. Sustainable tourism
- III. Extractives industries
- IV. Construction industry
- V. Sustainable/Organic agriculture
- VI. Agriculture and Agro-Processing industry
- VII. Fairtrade
- VIII. Social enterprise
- IX. Sustainable forestry
- X. Microfinance
- XI. Socially Responsible Investing Funds
- XII. Good governance

### Garment Industry

Garment industry, which has led the economic growth of Cambodia so far, is showing signs of slowing down. Reasons for slow down include weakening demand in the US and Europe, increased competition from neighbouring Vietnam and increasing costs of business operation.

The competition is likely to get more intense after the end of this year when the remaining textile export restrictions will be lifted from China.

Garment factories in Cambodia also face problems of volatile industrial relations leading to frequent strikes, lowest productivity in the region and lack of trained operators and local supervisors.

On the positive side, Cambodian garment factories have earned a reputation for decent working conditions on the back of ILO-BFC program. This has increased buyers' confidence in Cambodia's garment factories. Indeed, buyers who attended a two-day International Buyers' Forum in Phnom Penh in October this year once again expressed confidence in the garment industry of Cambodia and confirmed their continued support.

However, ILO-BFC program has focussed on labour conditions that mainly include human rights, workers' rights, overtime hours and wage, employment terms, freedom of association, minimum wage, workplace health and safety. This has significantly improved compliance

with social and labour standards of corporate social responsibility. But the same cannot be said about the environmental and supply chain security performance as these two aspects were not included in the ILO-BFC monitoring.

All retailers have a set of environmental standards in their code of conduct for factories. But, in the case of Cambodia, due to a unique monitoring system under the ILO-BFC, environmental standards were not given a priority, general working conditions being the main concern then.

However, as climate change concerns take centre stage, environmental performance of supply chain factories will gain in importance. Many retailers have already committed to certain targets of reducing their supply chain carbon footprint over the next few years. This would mean 'greening of supply chain factories' by imposing new measures for environmental performance.

Garment factories in Cambodia may be less prepared for these new demands as they have not built capacity to deal with environmental issues. This may put them at a disadvantage in competing with other garment producing countries in Asia.

Weak performance on environmental standards can seriously impact factories' business as multinational retailers plan to reduce their supply chain carbon footprint by introducing green measures.

Poor competencies in environmental management also mean the country will not be able to participate in a continuously growing niche segment of eco-garments or organic garments.

Similarly, potential lapses in supply chain security (C-TPAT) and resulting terrorist activity can damage the reputation of the country as a safe destination.

ILO-BFC program also does not include monitoring of supply chain security standards called the Customs and Trade Partnership Against Terrorism (C-TPAT) introduced by the US Customs and Border Protection Bureau after terrorist attacks on 9/11 in year 2001. All US retailers have committed to implementing the C-TPAT guidelines throughout their supply chain as part of social responsibility to fight against terrorism. Though, factories elsewhere started implementing C-TPAT guidelines as early as year 2002, garment factories in Cambodia were not impacted much as the ILO-BFC monitoring centred on labour standards. However, now factories are being asked to implement C-TPAT guidelines by buyers creating a new demand for capacity building. Failure to pass security audits can lead to termination of suppliers by buyers.

The sector employs over 350,000 people, mostly young uneducated women from rural Cambodia. The sector is too important to be allowed to decline. Increasing the

competitiveness of garment industry is therefore of immense strategic importance to sustain growth and save jobs.

### **Moving from compliance to corporate social responsibility**

It is important to understand the current status of CSR in the garment industry in Cambodia. BFC is not a CSR program and does not pretend to be a CSR program. It is a monitoring program to assess the level of compliance with labour laws. Factories sometimes tend to confuse this compliance program with CSR and believe they are engaged in CSR. On the hand, buyers support compliance program because it fits well into their own wider CSR program which includes ethical sourcing.

Compliance approach has served the garment industry well in terms of reputation for decent working conditions that include fair wages and workplace health and safety. However, in order to address more complex challenges of low productivity and strained industrial relations, manufacturers need to look beyond legal compliance and deploy corporate social responsibility principles in their management. This will require a paradigm shift in management style and leadership at all levels.

### **Benefits from CSR**

Though CSR on its own cannot improve productivity, workplace related CSR practices can create an enabling environment for more direct productivity enhancement interventions such as industrial engineering, increasing their chances to succeed.

Workplace CSR practices can also help in creating an enabling environment for more constructive engagement with unions and workers, improving the industrial climate.

Other benefits from workplace CSR can include lower employee turnover, reduced hiring and training costs and higher employee morale and loyalty.

A proactive and voluntary environmental stewardship can provide a competitive edge for factories as buyers look for greener factories. Well planned environmental initiatives can reduce energy costs, water consumption and waste over a medium term.

Following actions may be considered to introduce and promote CSR in the garment manufacturing industry:

1. Support Garment Manufacturers Association of Cambodia (GMAC) to build institutional capabilities for promoting wider CSR.
2. Carry out a CSR survey of garment industry in Cambodia to assess the existing level of CSR. Identify gaps for improvement.
3. Compile CSR best practices in the Cambodian garment industry and assess their impact on productivity, employee relations and buyer relations

4. Carry out a detailed study of the root cause of existing industrial relations problems and identify ways to improve the industrial climate.
5. CSR training program for the industry.
6. Introduce voluntary CSR reporting for the industry.

## Sustainable Tourism

In 2007, Cambodia received 2 million tourists generating \$1.4 billion in revenue. The tourism industry is the second largest contributor to the GDP after garment industry. Tourism contributed 16% to Cambodia's GDP in 2007, up from 6.3% in 2000.<sup>15</sup>

This year, more than 1.39 million tourists had arrived by August, registering an increase of 10.1% over the same period last year.<sup>16</sup> The number of tourist arrivals is projected to reach 5.5 million by 2015.

Aware of the high potential of the tourism industry, the government has already started developing new tourist destinations including in the north-eastern and the southern coastal part of the country. Examples include the ADB-supported Mekong Tourism Development Project. One of the components of the Mekong Tourism Development Project aims at promoting pro-poor community based tourism in two north-eastern provinces of Ratanakiri and Stung Treng.

The Mekong Tourism Development Project aims to reduce poverty in the GMS countries, contribute to economic growth, increase employment, and promote the conservation of the natural and cultural heritage. The specific objective of the Project is to promote sustainable tourism in the lower Mekong basin countries through infrastructure improvements, community and private sector participation, and sub-regional cooperation.<sup>17</sup>

Cambodia is also a signatory to ASEAN Tourism Agreement. The Agreement, signed in 2002, recognizes "the strategic importance of the tourism industry for sustainable socio-economic growth of the ASEAN Member States and the diversity in cultures, economy, and the complementary advantages across the region, which would benefit the tourism development of ASEAN in the pursuit of improved regional quality of life, peace, and prosperity".<sup>18</sup>

The agreement also reaffirmed member states' "adherence to the Global Code of Ethics for Tourism, adopted by the Thirteenth Session of the General Assembly of the World Tourism Organisation on 1 October 1999."

Development of tourism industry can bring immense economic benefits for the country. But at the same time, a reckless increase in tourism can produce negative impacts on the local community and environment outweighing the economic benefits. Developing sustainable tourism can help minimize the negative impacts while maximizing the economic gains and boosting competitiveness of Cambodia as a tourist destination.

Currently, most tourists arriving in Cambodia are from Asian countries, but a significant number of tourists come from the US, France and UK. International tourists from Europe and the US are increasingly becoming conscious of their carbon footprint during travel. They prefer off-setting their carbon footprint by buying carbon credits and by patronising hotels that practice the principles of sustainability.

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<sup>15</sup> Ministry of Tourism

<sup>16</sup> Tourism Statistical Report 2008, Ministry of Tourism

<sup>17</sup> Ministry of Tourism, MTDP

<sup>18</sup> ASEAN Tourism Agreement 2002

There is a growing demand, though these are niche segments, for specialized forms of sustainable tourism such as eco-tourism, community-based tourism and pro-poor tourism.

Key elements of sustainable tourism include a robust regulatory framework to address potential issues of community rights, working conditions, workers' rights, fair wages, responsible tourist behaviour, social, cultural and environmental impacts, land use planning, rehabilitation and settlement policies, incentives for the industry and access to capital.

These issues, if not addressed in the beginning, can lead to exploitation of local people, land abuse, sex tourism and trafficking, drug trafficking, environmental degradation and conflicts with local communities and limit the economic benefits to only the affluent. Moreover, the country will lose out in the market competition as not being a tourist destination that is not sensitive to sustainability.

It is also important to engage small and medium size hotels and guest houses in promoting CSR. Currently, small hotels below three-star category are exempt from building wastewater treatment plants and waste disposal regulations. As a result, they are discharging their wastewater in the public drainage system which ends up in the river system causing pollution. There is also a need to engage hotels in water conservation measures. Intensive use of underground water around popular tourist destinations such as Siem Reap should be a matter of concern for all. By adopting environmentally sound practices, optimizing and recycling of water, water resources can be made sustainable.

Developing sustainable tourist destinations alone cannot increase competitiveness. Such destinations would require a concreted marketing and branding effort to attract eco-conscious tourists from target countries.

Currently, there is a prevailing concern among eco-tourism operators that in the absence of a concerted national level marketing program, they have been left with the sole responsibility of marketing and promoting eco-tourism destinations. They also face uncertainty about the future of an eco-tourism destination caused by uncontrolled development at such destinations. They point to the example of Bokor Hill which has lost its appeal to the sustainable tourism target markets with the development of a casino. Development which does not take into account eco-tourism sites will only lead to fewer sustainable tourism attractions.

Development of sustainable tourism would require a strong partnership between the private, public and development sectors to build competencies for sustainable tourism.

Public sector can contribute by providing necessary legislation and regulations, identifying and preserving eco-tourism sites, land use planning, rehabilitation and resettlement policies and incentives.

Public sector can influence the development of sustainable tourism by introducing a regulatory framework to address potential issues of community rights, land use planning, rehabilitation and resettlement policies, working conditions, workers' rights, fair wages, responsible tourist behaviour, social, cultural and environmental impacts to name a few.

The corporate sector can contribute to sustainable tourism by collaborating with the public sector and civil society to minimize the negative impacts and maximize the positive impacts

of tourism industry. This can be achieved by adopting corporate social responsibility and bringing best practices from other sustainable tourism destinations.

The development sector such as the IFC can provide part of the funding to encourage investment in sustainable tourism and other organizations can help build capacities needed to develop sustainable tourism including skill training for tourism industry employees and public servants, assisting the government to develop effective regulations and creating awareness among tourists.

Some of the current capacities, such as ILO-BFC program, can be used to ensure fair working conditions in the tourism industry. But, other interventions are required to take full benefits of a wider CSR promotion in the tourism sector.

### **Potential benefits of CSR**

The following benefits can accrue from a strategic deployment of CSR in the tourism industry:

- ✓ Harmonious relations with local communities, license to operate
- ✓ Sustainable development of the tourism sector, license to operate
- ✓ Increased market share of global tourists looking for eco-tourism and sustainable tourism destinations
- ✓ Attracting high-value socially conscious tourists
- ✓ Human resource development, availability of local manpower
- ✓ Lower cost of supplies due to the development of local supply chains, reduced reliance on imported produce
- ✓ Reduced energy and water costs
- ✓ Reduced carbon emission, climate change mitigation
- ✓ Increased access to capital markets such as socially responsible investing funds
- ✓ Enhanced reputation for the industry and the country

### **Promoting CSR in tourism industry**

There are several voluntary standards, guidelines and frameworks available for the tourism industry to implement sustainable tourism principles. These include:

1. The Global Sustainable Tourism Criteria (GSCT)<sup>19</sup>
2. Global Reporting Initiative's guidelines for tour operators<sup>20</sup>
3. Tourism Operator Initiative for Sustainable Tourism development<sup>21</sup>
4. UNWTO's 7-Mechanisms framework for sustainable tourism (ST-EP Program)<sup>22</sup>

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<sup>19</sup> GSCT has been jointly launched by the United Nations Foundation, the Rainforest Alliance, the United Nations Environment Programme (UNEP) and UNWTO.

<sup>20</sup> *GRI is a* multi-stakeholder governed institution collaborating to provide the global standards in sustainability reporting

<sup>21</sup> The Initiative has been developed by tour operators for tour operators with the support of the United Nations Environment Programme (UNEP), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the World Tourism Organization (UNWTO), who are also full members of the Initiative.

<sup>22</sup> The World Tourism Organization (UNWTO/OMT) is a specialized agency of the United Nations

There are several certification schemes available as well which help tourism operators to distinguish themselves as a sustainable brand and allow tourists to identify sustainable operators. Some of the prominent certification schemes include:

1. Sustainable Tourism Certification by Rainforest Alliance for a number of standards.
2. Green Globe Program by the World Travel and Tourism Councils
3. The Blue Flag Eco-Label for Beaches and Marinas by Foundation for Environmental Education

Some countries have developed their own national level certification programs to develop sustainable tourism. Examples include Costa Rica (Certification for Sustainable Tourism), Guatemala (Green Deal Program), Mexico (The Beach Quality Certificate), Ecuador (Smart Voyager) and Brazil (Program for Certification of Sustainable Tourism).

The United Nations World Tourism Organization has published a compilation of best practices in SMEs in the eco-tourism sector containing 65 case studies which can be used by small operators to implement similar practices in their operations.<sup>23</sup>

Some of the initiatives that could help develop sustainable tourism in Cambodia include:

1. Developing a national sustainable tourism plan in consultation with private sector and other stakeholders.
2. Include incentives, fiscal and/or non-fiscal, for sustainable tourism initiatives in the proposed Tourism Law.
3. Develop a national sustainable tourism plan for the SME sector for a wider reach of sustainable tourism initiative. This should include minimum sustainability criteria for the SMEs in the sector.
4. Introduce a voluntary sustainability code of conduct for tourism operators. Operators who sign up the voluntary code of conduct should be provided free training and then subjected to periodic independent audits.
5. Capacity building (training, awareness, skill enhancement etc.) for tourism operators to implement and manage sustainable tourism standards.
6. Developing a national certification plan for sustainable tourism operators.
7. Developing a marketing strategy to brand and market Cambodia as a sustainable tourist destination.
8. Establishing a directory of certified sustainable tourism destinations and operators which should be easily accessible for the travellers through websites and publications.
9. Compile best practices in sustainable tourism in Cambodia
10. Introduce voluntary annual sustainability reporting for the tourism operators

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<sup>23</sup> Sustainable Development of Ecotourism - A Compilation of Good Practices in SMEs by UNWTO



## Extractive Industries

In January 2005, Chevron made the first significant oil discovery in an offshore area called block-A. The announcement has given hope that Cambodia can soon join the club of oil producing countries with a new source of revenue.

However, the history of several developing oil producing nations indicates that petroleum resources, if not managed well, can create complex problems such as misuse of oil revenues, corruption, decline in social-economic performance and poverty and conflict.

For example, Nigeria has one of the poorest populations in sub-Saharan Africa even though it is world's sixth largest oil exporter. Over 70% of its people live below a \$1 a day poverty line in spite of over \$380 billion worth of oil exports between 1974 and 2004. It is one of the most corrupt nations and dispute over oil revenues has led to separatist conflicts. Except for oil, the country has failed to attract any significant foreign investment because of corruption, strife and resulting political instability.

On the other hand, Malaysia, Indonesia and Botswana have been more effective in using their oil wealth to address poverty and furthering national development.

In order to ensure that the wealth created by oil benefits the entire nation and helps improving the lives of the poor, the government needs to play an important role as a good regulator. Lack of appropriate regulation, poor governance and corruption can lead to monopolies of natural resources, misappropriation of funds and an adverse impact on environment.

Therefore it is of paramount importance that the government should create an enabling environment by introducing a fair regulation, transparency in awarding contracts, good governance, a transparent accounting and disclosure of oil revenues, how the money is spent and how social and environmental impacts will be managed.

Indeed, the Royal Government of Cambodia is committed to the sustainable development of the petroleum industry. In his closing speech on the final day of the international conference, Fuelling Poverty Reduction with Oil and Gas Revenues - Comparative Country Experiences, in March this year, Deputy Prime Minister H.E. Mr. Sok An called for multiparty collaboration between the Cambodian National Petroleum Authority and other players. "It needs the cooperation of all other stakeholders, be they Government Ministries or Government Agencies, donors, civil society or the media," he said.

The Deputy Prime Minister said the Government was committed to finding long-term positive outcomes. "The translation of the capital value of oil resources into the stored capital value of our people through improved health, social conditions and education is very important for the long-term prosperity of Cambodia."

On the other hand, oil companies need to put in place corporate social responsibility policies aimed at compliance, transparency, minimizing the negative impacts of their operations on the local community and environment and participating in the social development of communities around their operations.

The civil society organizations' role is crucial for facilitating capacity building in the public sector and encouraging the corporate sector to adopt corporate social responsibility aimed at sustainable economic growth and poverty alleviation in the host country.

Extractive Industries Transparency Initiative (EITI), launched in Johannesburg at the World Summit on Sustainable Development in 2002, is a good example of a multi-stakeholder collaboration to improve governance in oil, gas, and minerals-rich countries. EITI aims to achieve this by the disclosure, verification, and reconciliation of payments made by extractive industry companies and revenues received by governments. Committing to EITI principles could be the first step for Cambodia toward a sustainable development of oil, gas and mining industry.

Currently, 27 countries have committed to EITI. Other supporters include 37 oil, gas and mining companies, three major industry associations, five international organizations including the World Bank, 11 donor governments and G8, seven civil society organizations and over 80 institutional investors.

Nigeria has reported that EITI helped it increase oil revenue by \$1 billion in 2004-05, an indication that improved transparency alone can make a big difference. Nigeria committed to EITI in 2003 and launched the program in 2004 bringing transparency and accountability to oil operations with a resolve to improve governance.

Azerbaijan, Ghana, Cameroon, Mauritania, Guinea and Peru and a host of other countries too have taken similar initiatives using EITI to manage their oil resources in a responsible manner in close collaboration with civil society organizations and oil companies. This report looks at the example of Timor-Leste, a country in South-east Asia.

### **Potential benefits of CSR**

Implementing CSR programs in the extractives industries has the following benefits:

- Harmonious relations with local community, license to operate
- Reduced impact on environment
- Positive impact on society
- Reduced carbon emissions, climate change mitigation
- Better governance, reduced corruption
- Better management of state revenues, transparency

### **Example of Timor-Leste**

A South-east Asian nation Timor-Leste, which is a new natural gas producer, has taken significant initiatives, inspired by EITI, to bring transparency and accountability in the petroleum sector with an active involvement of civil society and corporate sector.

Timor-Leste published a "Public Consultation Discussion Paper on Establishing a Petroleum Fund" in 2004 and followed with a series of public consultations in every district of the country. The input was used to draft Petroleum Fund Law in 2005 for further public consultations and finally the law was passed in the parliament in June 2005 unanimously.

Together with the Petroleum Act and the Petroleum Taxation Act, the Petroleum Fund Act provides a sound regulatory framework for Timor-Leste to use oil resources in the best national interests.

Under the Petroleum Fund Law, all revenues received from petroleum operations will be deposited into designated fund. To maintain transparency, a quarterly report on the performance and activities of the fund will be published and an international audit firm will act as an independent auditor of the fund. The audit report will be published every year.

The law requires the government to use any money in the petroleum fund only through the state budget passed by the parliament.

A consultative council has been constituted which includes members from civil society and corporate sector to advise the parliament on the performance and operation of the petroleum fund and how best the money can be used.

The government has also set-up a Petroleum Transparency website in three different languages. The website includes all petroleum regulations, quarterly reports, model production sharing contracts and public consultation papers to create an environment of transparency and accountability.

### **Promoting CSR in the extractives industries**

- I. Extractive industries and the government should take a collaborative approach to address the social and environmental impacts of business operations. This should include developing an enabling regulatory framework to set minimum benchmarks for the occupational safety, health, working conditions and environmental performance for companies. Environmental performance should include environmental health and safety within the company operations and protection of the eco-system including bio-diversity, forests and water resources. The social aspects should include community rights and channelling benefits into the local economy by investing in the development of local suppliers and infrastructure.
- II. Introduce compulsory Social and Environmental Impact assessment for all extractives projects to be conducted by independent agencies.
- III. Introduce compulsory environmental certifications such as ISO 14000 for extractives projects. However, this should be preceded by a strong environmental regulation because the ISO 14000 auditors will verify compliance with national laws.
- IV. Introduce compulsory climate change impact assessment /assessment of GHG emissions for all projects and ask companies to submit a mitigation or emission off-set program.
- V. Encourage extractives companies to engage in an ongoing dialogue with important stakeholders such as local NGOs, communities, environmentalists, international development organizations, media, local chambers of commerce and the government to develop a better understanding of stakeholder expectations and find constructive ways to address those concerns.
- VI. Encourage the extractives industry to adopt a code of conduct that should include standards on social, ethical, governance, sustainability and environmental aspects.
- VII. Encourage the industry to publish Cambodia-specific annual CSR Reports disclosing their CSR performance against various indicators such as provided in GRI guidelines.
- VIII. The government should demonstrate its commitment to a healthy and productive development of the extractives industry by either signing up international initiatives such as EITI or come up with an alternative model in consultation with key stakeholders.

## Construction sector

Construction industry in Cambodia has become the fourth largest component of economy after the garment, tourism and agriculture. Past few years' economic growth has spurred massive construction activity particularly in Phnom Penh. Phnom Penh's skyline is set to change in a few years time with several tall building coming up which also includes the much talked about 52-story tower being built by a South Korean developer. Siem Reap has also seen intensive construction activity riding on the tourism boom.

Wide ranging construction activity includes building of high rise office towers, residential complexes, services residences, commercial complexes, shopping malls, international schools and special economic zones or industrial parks.

It is estimated that the sector has attracted \$3.2 billion in investment, mostly from China and South Korea, in the first six months of this year alone. The sector employs an estimated 40,000 workers. The Cambodia Institute of Development Study estimates that the construction sector now contributes 7-8% to the GDP.

However, the construction boom has also brought controversies. The main issues in the construction sector include allegations of land grab, working conditions and minimum wage and benefits for construction workers, workplace safety, environmental impact and protection of cultural heritage.

In the absence of strict safety standards or regulations for the construction industry, accidents are frequent. Builders often do not provide even basic safety gear such as helmets, protective boots, harness, eye shields, masks and gloves. Workers and supervisors also do not receive safety training.

Though there are no official figures available, the president of the Cambodian National Federation of Building and Wood Construction (CNFBWC), was quoted in a media report recently that in Phnom Penh alone some 50 construction workers are injured each day and at least one worker dies each week. The same report quoted the president of Siem Reap-based Cambodian Construction Workers Trade Union Federation (CCTUF), who said about 10 construction workers are injured each day. Unions are demanding laws on safety, working conditions and wages for the construction industry.

The industry is also accused of paying lower wages to Cambodian workers than their Vietnamese co-workers.

Cambodia's laws on construction quality and structural safety are also outdated. Poor quality of construction may threaten public safety and reputation of the industry.

In view of global warming concerns, many governments around the world are promoting environment friendly building designs. Such buildings consume lesser energy and reduce

carbon emission. Cambodia should take advantage of green building technologies and put in place minimum environmental standards for the construction industry.

There is a growing trend among multinational organizations to demand CSR performance from their building contractors. A contractor's CSR record is one of the key criteria of selection for awarding contracts. If Cambodian contractors and developers wish to compete for such projects, they will have to develop their CSR credentials.

CSR can also increase access to finance for large scale projects. Several banks have committed to the Equator Principles which provide guidelines for responsible lending. Banks which are signatories to the Equator Principles are required to apply a CSR framework to all project loans exceeding \$10 million. The CSR framework includes social and environmental impact of the project.

Developing local human resources for the construction industry is another important area that needs to be addressed by setting up training schools for engineering, architecture, interior-design and building safety. This would reduce reliance on foreign manpower and create quality jobs for the local people.

Construction activity is a key indicator of economic growth. The sector can make a positive impact on socio-economic development if it conducts its business in a responsible manner keeping into account ethics, working conditions, workplace health and safety, land use, resource use and environmental impact.

### **Potential benefits of CSR**

Some of the potential benefits of CSR for construction companies include enhanced reputation, competitive edge, better risk management and a more committed and efficient work force; all this leading to better profits. Needless to say their responsible business practices could also have a positive impact on wider society and the environment.

Main benefits from promoting CSR in the construction sector could be:

- Harmonious relations with local community, license to operate
- Reduced rate of workplace accidents
- Reduced accidents would lead to reduced cost in terms of compensation payments
- Improved building safety
- Lower regulatory risk due to better compliance
- Better working conditions
- Sustainable land use and management
- Opportunity to differentiate from competitors as a reliable developer due to enhanced reputation
- Opportunity to differentiate from competitors by making eco-friendly buildings
- Development of local human resources: managerial, technical/engineering, building technology, design, architecture

## **Promoting CSR in the construction sector**

1. The construction industry association should adopt CSR and assess the industry's impact on various stakeholders such as workers, previous land owners/farmers, suppliers, potential buyers and tenants, neighbouring community and environment. Then they should embark on minimizing the negative impacts on these constituencies as part of their business responsibility.
2. Construction companies should engage in stakeholder dialogues with workers, authorities, communities and civil society to develop a better mutual understanding and reduce the number of complaints and negative press coverage.
3. Sharing knowledge and information with suppliers and developing local supply chain for more efficient and predictable deliveries, working together on reducing costs, improving efficiencies and product innovation.
4. Industry itself can take voluntary steps by adopting a code of conduct for safety standards through its association.
5. Create an enabling environment by introducing updated building laws taking into account the construction quality, design and environmental impact.
6. Introduce international workplace safety standards, regulations on wages and working conditions for the construction sector by making necessary amendments in the Labour Law.
7. Introduce eco-design or green building certification schemes to incentivise developers' environment friendly initiatives.
8. The public sector and development organizations should consider setting up a training institute or build capacities in existing engineering schools to develop local manpower in the area of mechanical and civil engineering, architecture, building design and quality assurance for building materials.

## Sustainable Agriculture

Promoting agriculture can directly address the problem of poverty and unemployment as a country's 90% poor live in rural areas and almost 80% of the workforce is engaged in agriculture. However, agricultural production is far below its potential due to lack of access to arable land, modern cultivation techniques and markets. As a result, Cambodia's agricultural products are not competitive in the global market when compared with its South-east Asian neighbours.

Cambodia's accession to WTO has also brought new challenges for the agriculture sector. Under the WTO terms, Cambodia has agreed to not to subsidise its agriculture exports even though other Least Developed Countries are not required to make such commitment. Cambodia has also agreed to cap tariff on agriculture at an average rate of 30% for agro-products. There are fears that a lack of subsidy can adversely affect farmers' livelihood.

Under its WTO membership, Cambodia also needs to deal with the impact of the Sanitary and Phyto-sanitary Agreement (SPS), the Technical Barriers to Trade Agreement (TBT) and The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

### Organic Agriculture

Part of the problem can be solved by introducing sustainable agricultural practices and growing organic produce to create an export industry catering to a niche market that continues to grow at a rapid pace.

IFOAM defines organic agriculture as a "holistic production management system which promotes and enhances agro-ecosystem health, including biodiversity, biological cycles, and soil biological activity. It emphasizes the use of management practices in preference to the use of off-farm inputs, taking into account that regional conditions require locally adapted systems."

Organic farming bars the use of synthetic chemicals as fertilizers and pesticides, relying more on managing the ecosystem.

In Cambodia, organic agriculture can contribute to socio-economic and ecologically sustainable development of rural areas. Since organic farming is labour-intensive, its promotion can generate substantial number of rural employment in Cambodia.

Experts say that organic farming can help improve food security, catalyze rural development, create sustainable livelihoods, protect soil fertility, reduce emission of green house gases and mitigate climate change.

The United Nations' Food and Agriculture Organization also strongly supports organic farming and is engaged in a range of initiatives to promote organic agriculture especially in poorer countries.

Organic farming initially tends to increase the cost as it needs more labour, but it is more than offset in medium term on account of better yield, lower input cost, higher price realization and improved farm management.

Europe and the US are the two largest markets for organic produce where there is a growing consumer demand for organic and fair trade fresh produce. Both regions need to import large volumes of organic produce to meet their demand.

Demand for organic produce is also growing in many other countries including Singapore, South Korea, Taiwan, China, Hong Kong and Japan. Consumers are willing to pay a premium for organic produce.

The world organic market, which was \$23 billion in 2002, grew to \$40 billion in 2006 and is estimated to reach \$70 billion by 2012.<sup>24</sup> In Europe, the sale of organic and fair trade produce crossed EUR 5 billion in 2007, for the first time. The global organic food market has been growing at 20% per year since 1990.

### **ORGANIC FARMING IN ASIA**

Asia accounts for 2.9 million hectares in organic farming managed by 130,000 farms while 31 million hectares area is under organic worldwide. China alone accounts for almost 79% of organic farming in Asia as it has 2.3 million hectares in organic farming. This indicates a huge potential for further growth in Asia in general and in countries other than China in particular.

Most of organic activity in Asia is currently unregulated and uncertified. However, some countries have woken up to the opportunity and considering policies to promote organic farming. Thailand, the Philippines, India, Japan, Taiwan and South Korea have introduced rules for organic farming.

Organic regulations in India, which first introduced standards for organic agriculture in 2001, compare well with the EU regulations making its organic produce more likely to be able to meet import norms. The ministry of commerce administers the organic trade through the National Program on Organic Agriculture.

In Thailand, private sector is taking the lead and The Thai Chamber of Commerce is planning to introduce a new quality standard "Thai Good Agricultural Practices or ThaiGap" this year. There is a voluntary government standard for organic farming and the government provides free certification. Thailand's Agriculture ministry plans to bring local organic standards up at par with international standards by next year. However, most growers seek certifications from foreign certification bodies and from other local private sector certification schemes.

In south-east Asia, Indonesia leads in organic farming. Area under organic management in Indonesia is 52,882 hectares, Japan is 29,151 hectares, Republic of Korea is 28,218 hectares, Philippines is 14,134 hectares, Thailand is 13,900 hectares, Vietnam is 6,475 hectares, Malaysia is 2,367 hectares, and Laos is 60 hectares. Number of organic farms in each

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<sup>24</sup> The World of Organic Agriculture: Statistics and Emerging Trends 2007 by IFOAM



country, Indonesia is 45,000 farms, Philippines is 34,990 farms, Korea is 28,951 farms, Japan is 4,539 farms, Thailand is 2,498 farms Vietnam is 1,022 farms, and Laos is 5 farms.<sup>25</sup>

Malaysia plans to have 20,000 hectare under organic farming by 2010 and hope to reach 170 million euro in organic revenue in five years. On the domestic front, superstores Jaya Jusco and Tesco have become the lead distribution channels for organic produce in the country. UK headquartered Tesco is known for its CSR commitment.

Malaysia already has a national level voluntary certification scheme in partnership with private sector but it is not considered very effective and the number of certifications granted has remained very low.

## **Organic certifications**

A study by the ADB Institute has found that organic certification substantially contributes to Millennium Development Goal-1 (poverty and hunger) and Millennium Development Goal-7 (environmental sustainability).<sup>26</sup>

According to the study, “farmers who follow certification requirements stand to be rewarded with substantial improvements in farming systems, premium prices, and better market access. In addition, by eliminating the risk of exposure to toxic agrochemicals, fair trade farming directly contributes to health-related Millennium Development Goals. Moreover, as organic agriculture contributes to mitigating climate change, certified organic farmers with established farm-monitoring systems are in better positions to receive compensation for soil carbon sequestration, when the methodology is approved.”

Organic farming and labelling operate in an internationally regulated regime. Over 60 countries have introduced regulations for organic farming and labelling of products. Europe was the first to formulate government rules for the labelling of organic products when the European Commission introduced the system for the 13 member countries in 1991. Government regulations on labelling have greatly increased consumers' trust in organic products.

Today, there are several international initiatives aimed at providing standards and certifications for organic farming and labelling. The International Federation of Organic Agriculture Movement (IFOAM), an umbrella body of organic organization established in 1972, is the main organization that sets standards for organic farming.

There are more than 395 organizations worldwide offering organic certification services. Most certification bodies are in Europe (160) followed by Asia (93) and North America (80). The countries with the most certification bodies are the US, Japan, China and Germany.<sup>27</sup>

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<sup>25</sup> Organic Agriculture in South East Asia by Asso. Prof. Danuwat Peng-ont, Anan Pintarak and Prof. Numchai Thanupon, Maejo University, Chiangmai, Thailand, 2007

<sup>26</sup> A Review of Organic and Fair Trade Certifications, by Sununtar Setboonsarng, ADB Institute, Aug 2008

<sup>27</sup> The World of Organic Agriculture: Statistics and Emerging Trends 2007 by IFOAM

Not all certification schemes are acceptable in all markets. This has created confusion. However, a harmonization of global organic certification industry started by IFOAM is expected to solve this problem. So far, more than 32 certification bodies operating in 70 countries have voluntarily decided to obtain accreditation from IFOAM. Any certification scheme proposed in Cambodia needs to be mindful of the challenges of acceptability in the target export markets.

Foreign certification organizations are very expensive and small farms cannot afford them. Therefore, a government-backed certification that meets international standards will be a more viable solution.

### **Organic farming and CSR**

The concept of CSR involves striking a balance between economic, social and environmental goals while maximizing the positive impact of business operations on stakeholders. Organic farming, by its very nature, uses similar concepts which have a positive impact on economy, society and environment. However, applying CSR principles in organic farming in a more conscious way is still a new area.

Many large companies, such as food companies and retailers, are supporting organic farmers as part of their own CSR initiatives. There is also a growing trend among consumer companies such as hotels and restaurants, which cater to high-end guests, to support organic farms to meet the demand of their customers as well as count it as their CSR initiative.

### **Potential benefits of CSR**

- Access to fast growing export market for organics
- Price premium, higher profits
- Increase in productivity
- Soil conservation
- Better farm management, higher efficiency and reduced wastage
- Improved workplace health and safety due to use of safer farm inputs and avoidance of harmful chemicals
- Reduction in GHG emission, climate change mitigation
- Socio-economic development of rural communities

### **Promoting organic farming in Cambodia**

There are already a number of organic initiatives in Cambodia but they are unregulated and mostly uncertified which limits their marketability.

Among the certified projects, a noteworthy initiative is a rice farm in Kampong Thom which produces organic rice supported and certified by the German aid agency GTZ. Another GTZ project involves organic farming of cashew in Kampong Cham and Kampong Thom.

Farmers involved in the projects have clearly benefitted from reduced expenditure on fertilizers, higher price realization for their rice and safer working environment due to lesser exposure to harmful chemicals.

Organic initiatives by CEDAC, an NGO in Cambodia, now include more than 65,000 farming-families mainly growing organic rice in 15 provinces. According to CEDAC, rice yield for organic farmers has almost doubled and seed requirement has fallen by 70-80 percent.

Apart from rice and cashew, other organic products being grown in Cambodia include fruits and vegetables and herbs and spices, though their volume is low. There is a potential to expand this list to include palm wine, dried fruits, coconuts, peanuts, sesame and sunflower to name a few.

Increasing the scale of organic farming in Cambodia and gaining a foothold in the world market would require a comparable regulatory framework, reliable monitoring and certification mechanism, identifying the right crops, technical assistance to farmers, capacity building of public sector, tax incentives and subsidizing the cost of certification. Marketing and branding will be equally crucial to gain access to key markets.

Some of the actions that may be considered for an active promotion of organic farming in Cambodia:

1. Develop a regulatory framework and standards for organic production, processing and export with close cooperation between the government and private sector.
2. Develop institutional and farm-level competencies for international certification.
3. Develop a national level certification program duly accredited by an international organization such as IFOAM.
4. Develop private sector to establish processing and export facilities to complete the organic supply chain (from farm to international market).
5. Develop a marketing mechanism targeting the CSR-oriented retail chains, food store chains and hotels to promote Cambodian organic produce.
6. Currently, hotels use imported food products including fruits and vegetables. Sourcing from organic and sustainable farms could be promoted as part of their commitment to sustainable tourism.
7. Encourage companies to include supporting organic farmers through their CSR programs such as employee volunteering programs. Activities may include teaching management, accounting and documentation skills to help in certification, marketing skills and ways to access capital etc.
8. Encourage banking institutions to find innovative ways to give credit to farmers as their CSR. For example, giving credit against commodities as collateral.

## Agriculture /Agro Processing

**A**gri-business in Cambodia is under-developed even though almost two-thirds of Cambodia's population is engaged in agriculture. Therefore, the development of agriculture sector and related agro-processing industry is of strategic importance for the country.

The Royal Government of Cambodia has identified agriculture as one of the four strategic growth areas in its 'Rectangular Strategy for Growth, Employment, Equity and Efficiency in Cambodia' for 2004-2008. The Rectangular Strategy was launched in July 2004 and aims to enhance economic growth, employment, equity and social justice.

Currently, agriculture in Cambodia is by and large subsistence farming. The productivity is extremely low and mono-cropping is common rice being the main crop. Apart from rice, the country also produces other commodities such as maize, soybean, peanuts, cashew, sesame, onion, tomato, lettuce, ginger, black pepper, cardamom, coconut, cabbage and watermelon which have potential to grow.

Despite the importance of agriculture to Cambodia's economy and society, the sector does not play a significant part in the country's trade. In 2002, only three percent of total exports came from agricultural products.<sup>28</sup>

There is a huge potential to improve productivity, crop diversification, distribution, marketing processing and storage of farm produce. But all this will require massive capital infusion and an active participation of private sector.

At present, it is estimated that 91% agri-businesses are small enterprises and the sector is dominated by rice millers. These small enterprises have limited access to financing and technology. Hence their productivity remains among the lowest in the world.

### Farm Link, Cambodia

Farm Link is a company in Cambodia which works closely with farmers to provide them access to export markets for their produce. The company groups farmers to get higher volumes for exports, provides technical input for enhancing productivity, marketing services and arranges for credit. Farm Link has been distributing Kampot pepper and a host of other products. The company also has a traceability scheme. Under the scheme, the label on each packet sold by it contains a trace code which can identify the farmer who produced it.

The company is engaged in a pilot project on Geographic Indication (GI) Protection for Cambodia. The project aims at securing GI labelling for Kampot pepper and Kompong Speu Sugar palm. GI labels are given to products which show unique characteristics related to the region of production such as Champagne French Wine. The GI label is a guarantee of the origin of the product for the consumers and a protection against fraud for the farmers.

Source: Farm Link

<sup>28</sup> Agriculture and Agro-industry in Cambodia, CUTS-CITEE, 2005

As a result, there is little value addition taking place in the agro-industry. According to Economic Institute of Cambodia, there are about 18,000 rice mills in the country. Still, over 1.5 million tonnes of paddy rice is exported to Thailand and Vietnam every year because local mills are not efficient. This results in a direct loss of employment and economic activity.

#### Rice Contract Farming in Lao PDR

Lao Arrowny Corporation, a Lao-Japanese joint venture has contracted more than 2000 farmers since 2002.

A study by ADB published early this year said: The results of the empirical analysis support the claim that contract farming is an effective tool to increase the incomes of smallholder farmers in rural areas where market failure is prevalent. The findings show that the sampled contract rice farmers cultivated higher yielding, improved rice varieties and earned higher incomes than non-contract rice farmers under similar agro-ecosystem and socioeconomic conditions. The sampled contract farmers have better access to inputs and credit and an assured market for their produce, which enables them to earn higher profits. The evidence also suggests that contract farmers are more likely to diversify production into other commercial crops or livestock, leading to increased incomes and more secure livelihoods. The contract arrangement thus appears to be effective in facilitating the transition of small farmers from subsistence to commercial production.

*Source: Rice Contract Farming in Lao PDR: Moving from subsistence to commercial agriculture, ADB Feb 2008*

Core constraints of agriculture and agri-businesses in Cambodia include lack of good quality seeds, poor water management, lack of credit, lack of agro-research, high input costs, poor production planning, lack of marketing information, inadequate agro-marketing services, poor storage facilities, lack of good agro-processing facilities and corruption.<sup>29</sup>

Similar constraints existed in tobacco farming in Cambodia before British American Tobacco Company introduced contract farming. As a result, tobacco productivity and exports have gone up dramatically over the years (see page 16).

By establishing linkages between the private sector and farmers to introduce responsible contract farming systems for other crops can lead to a healthy growth of agriculture and agro-businesses in Cambodia.

#### Potential benefits of CSR

- ☑ Harmonious relations with the farming community, license to operate
- ☑ Increase in productivity through better farm management and technical input. Farmers gain by higher proceeds and contracting companies benefit by higher volumes to export
- ☑ More reliable sources of supply due to close partnership between buyers and farmers
- ☑ Increased food security as larger area comes under agriculture, yields go up and crop diversification takes place
- ☑ Socio-economic development of rural communities.

<sup>29</sup> Agriculture and Agro-industry in Cambodia, CUTS-CITEE, 2005

### **Promoting CSR in agriculture and agro-business**

The example of BAT and a case study from Lao PDR (see box) clearly indicate that responsible contract farming presents a win-win situation for the farmers and the enterprise which works with them.

Some of the possible actions that may be considered to promote responsible contract farming are:

- I. Create awareness about the contract farming model and associated benefits among the industry organizations such as the Rice Milling Association of Cambodia.
- II. Establish a pilot rice contract farming project in partnership with a willing rice miller, a group of farmers, a microfinance institution and an agricultural research organization. The success of the project will provide motivation for more rice millers to adopt contract farming.
- III. Encouraging the set up of farmers' cooperatives to gain scale and volumes needed for exports.
- IV. Introduce a law for facilitating Geothermal Indication labelling of products unique to Cambodia to gain a competitive advantage in international markets.
- V. Develop national norms for contract farming by taking into account responsible contract farming principles such as social and environmental aspects. Key elements of responsible contract farming include: improving seed quality, pest management, soil protection, management of water resources, bio-diversity, training of farmers, technical assistance to farmers, micro-credit for farmers, occupational health and safety, child labour and transparent pricing mechanism.

## Fairtrade

Growing ethical consumerism in developed countries has increased demands for certified fairtrade products from developing countries. Several companies, such as Starbucks, actively promote fairtrade in developing countries as part of their corporate social responsibility. Starbucks, which is already one of the largest buyers of fairtrade certified coffee, plans to double its purchase of fairtrade coffee in 2009.

Fairtrade is a form of trading motivated by social goals. Fair trade is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. By requiring companies to pay sustainable prices (which must never fall lower than the market price), fairtrade addresses the injustices of conventional trade, which traditionally discriminates against the poorest, weakest producers. It enables them to improve their position and have more control over their lives.<sup>30</sup>

Apart from paying a fair price, fairtrade advocates meeting social and environmental standards in the production of a variety of goods. Fairtrade particularly focuses on encouraging exports from developing countries to developed countries.

A recent study by ADB Institute found that fairtrade can potentially contribute to the achievement of Millennium Development Goals. According to the study, fairtrade certification directly targets smallholders in marginal areas, resulting in broader impacts on other non-income MDGs.<sup>31</sup>

Cambodia, due to a large rural marginalized population with agricultural base, has huge potential to participate in global fair trade and bring much needed economic development of rural areas.

In 2007, global sale of certified fair trade amounted to \$3.6 billion, a 46% increase over the previous year.<sup>32</sup> It is estimated that over 7.5 million underprivileged farmers and producers benefit from Fairtrade.

<sup>30</sup> Fair Trade Foundation, UK

<sup>31</sup> A Review of organic and fairtrade certifications, by Sununtar Setboonsarng, ADB Institute, Aug 2008

<sup>32</sup> Fairtrade Labeling Organizations International Annual Report 2007

### Thai rice farmers gaining independency

Rice Fund Surin is a small rice cooperative in the north-eastern part of Thailand, home of the best Hom Mali Rice in the country. Until 2004, the cooperative used to be part of Greenet, Thailand's biggest organic and Fairtrade cooperative.

At the beginning of 2005, Rice Fund Surin decided to take a big step forward and to become independent from Greenet, an enormous challenge for a cooperative with only 45 members. The cooperative applied for Fairtrade Certification, which they received in August 2005 and provided them with a direct access to the international market. The cooperative's Fairtrade certified rice can now be found in supermarkets in several countries in Western Europe and in the USA and growing sales figures are not only reflecting the success of the Fairtrade certification for the Rice Fund Surin, but also suggest a bright future for the cooperative and set the course for expansion.

Some of the benefits that farmers now enjoy include:

1. Quality of land and rice has improved.
2. The money from the Fairtrade Premium is used to support various educational, cultural and environmental projects in the area such as planting trees in the community forest. The forest in turn gives wood and fruits.
3. Reduced dependency on rice as the only crop. The cooperative is using the Fairtrade Premium to create a fund for its members to buy seeds in order to allow the cooperative to grow other crops besides rice.
4. Diversification of crops has reduced migration to cities as families can work on their fields round the year.
5. Farmers are able to save cash after meeting all their needs.

*Source: Fairtrade Labelling Organization International*

More popular products sold under fairtrade include tea, coffee, cocoa, sugar, handicrafts, honey, bananas, cotton, flowers, wine, beer, fresh fruits, fresh vegetables, juices and drinks, biscuits, chocolates, jams and spreads, herbs and spices, nuts, rice etc.

Apart from growing consumer demand for fairtrade, several countries have been actively considering legislation to support fairtrade. These countries include the UK, France, Belgium, Italy and Netherlands. The European Union has recognized fairtrade as a tool for poverty reduction and sustainable development in order to meet millennium development goals. In July 2006, the European parliament unanimously adopted a resolution on fairtrade suggesting an EU-wide policy on promoting fairtrade.

### **Fairtrade standards and certification**

Engaging in fairtrade requires certification of fairtrade products. The certification or labelling helps consumers to identify products that meet fairtrade standards. While fairtrade standards are set by the Fairtrade Labelling Organizations International (FLO), the certification system is overseen by FLO-CERT, a certification body.

Unlike codes of conduct, the fairtrade standards are not simply a set of minimum standards for socially responsible production and trade. The Fairtrade Standards go further by guaranteeing a minimum price considered as fair to producers. They provide a fairtrade premium that the producer must invest in projects enhancing its social, economic and environmental development. They strive for mutually beneficial long term trading relationships. They set clear minimum and developmental criteria and objectives for social, economic and environmental sustainability.<sup>33</sup>

Producers and traders both are required to meet fairtrade standards to be able to use fairtrade certified label.

The FLO has two sets of generic standards for producers:

- I. Generic standards for small farmers' organizations: This applies to small farmers or smallholders organized in cooperatives or other organizations with a democratic, participative structure
- II. Generic standards for hired labour situations: This applies to whose employers pay decent wages, guarantee the right to join trade unions and provide good housing when relevant.

Generic standards for hired labour situations emphasise that Corporate Social Responsibility should be an integral part of the company's mission or policy statement.

Fairtrade standards are divided into three broad groups<sup>34</sup>:

- I. Social development standards

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<sup>33</sup> Fair Trade Labelling Organization International

<sup>34</sup> Fairtrade standards in detail can be viewed at [http://www.fairtrade.net/producer\\_standards.html](http://www.fairtrade.net/producer_standards.html)



- II. Economic development standards
- III. Environmental development standards

The certification system involves independent auditing of fairtrade producers and traders to ensure that fairtrade standards are met.

As opposed to organic certification, financial benefits for fairtrade certification are immediate. Organic certification often requires a transition period before full certification is granted.

#### **Potential benefits of promoting fairtrade**

- Access to fast growing fairtrade export market
- Higher price premium, more profits
- Entrepreneurial development at provincial level creating more jobs in provinces
- Development of rural areas, marginalized communities
- Sustainable development: social, economic and environmental
- Attract socially responsible investing

#### **Promoting fairtrade in Cambodia**

There are already a number of fairtrade initiatives by NGOs and individual entrepreneurs. Cambodia Fair Trade Forum was established this year as a first step toward organizing fairtrade producers and traders. In a significant move, the Artisans Association of Cambodia has partnered with Europe's largest fairtrade organization Traidcraft Exchange aimed at promoting fairtrade in Cambodia. Other fairtrade producer groups include Baskets of Cambodia, Rehab Craft Cambodia, Village Focus International, Saraye and Samatoa to name a few.

A range of Cambodian products are being sold as fairtrade products including handicrafts such as hand-woven silk textiles, silk bags and pouches, hand-woven reed products, baskets, woodcarvings, wooden puzzles, jewellery, candleholders and terracotta tiles. However, there is a potential for expanding this list to include more products especially agricultural products.

The concept of fairtrade is relatively new in Cambodia and current initiatives are small and fragmented in spite of some praiseworthy initiatives.

The following initiatives, for example, could help fairtrade flourish in Cambodia:

- I. A national policy on promoting fairtrade
- II. Setting up a fairtrade promotion council to undertake marketing activities in target markets and tracking trade statistics and benefits accruing to communities

- III. Capacity building: training and workshops for producers, village communities, farmer cooperatives, artisans' cooperatives etc.
- IV. A national body for overseeing certifications and standards, setting minimum norms for fairtrade producers and traders
- V. Providing subsidy for fairtrade certifications for producers
- VI. Setting up cooperatives to gain economies of scale and large volumes

## Social Enterprise

**S**ocial enterprises are for-profit businesses with social and/or environmental objectives and targets. Profit from a social enterprise is used to tackle a social or environmental need. As opposed to commercial business, the profit generated in a social enterprise does not go to shareholders. Rather it is used to meet stated social and environmental objectives.

The UK government defines social enterprises as “businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximize profit for shareholders and owners”.<sup>35</sup>

By their very nature, social enterprises are responsible businesses. They operate on the core principles of corporate social responsibility which advocate a harmony between economic, social and environmental goals. Social enterprises prove that social and environmental objectives can be met while still making profits.

There is a growing realization that governments alone can solve complex social and environmental problems. In this context, social enterprises can play a crucial role in addressing social and environmental in a sustainable manner. Social enterprises engage in a range of products and services such as unemployment, youth development, training, employment of disabled, empowerment of women, healthcare for the poor, services and products aimed at the poor and microfinancing.

Acknowledging the importance of social enterprises, many countries now have national policies to create an enabling environment for the growth of social enterprise.

UK government, for example, has a national action plan to promote social enterprise. The 2005 Annual Survey of Small Businesses UK found that there are 55,000 social enterprises in the UK with a combined turnover of £27 billion. Social enterprises account for 5% of all businesses with employees, and contribute £8.4 billion per year to the UK economy.<sup>36</sup>

Several investment funds have emerged in recent years aimed at investing in social enterprises.

Cambodia already has a number of social enterprises being run by social organizations. The Modern Dress Sewing Factory (MDSF) is one such example. MSDF, set up in 2007, employs 17 women living with HIV.

Some of the other examples in Cambodia include Hagar Design (employs destitute women who produce silk handbags for international markets), Hagar Soya (employs destitute women, has created employment for local soy farmers and access to nutrient soy milk for children in Cambodia), Digital Divide Data (provides on the job computer training to

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<sup>35</sup> UK Cabinet office, office of the third sector

<sup>36</sup> Social Enterprise Coalition, UK

disadvantaged groups such as landmine victims, abused women, rural immigrants and orphans and then hires them for data entry jobs), Cafe Yejj (a bistro cafe providing skills training and employment in catering and hospitality, especially to women from 'at risk' and vulnerable backgrounds) and Friends International (runs several businesses include a cafe and a restaurant as part of the training for the youth).

### **Potential benefits of promoting social enterprise**

- Entrepreneurial development at all levels including in provinces
- Employment generation
- Sustainable development: social, economic and environmental
- Attract foreign investment from socially responsible investing funds

### **Promoting social enterprise in Cambodia**

The following measures may be considered for the promotion of social enterprise in Cambodia:

- I. Develop a national plan for social enterprise development to create an enabling environment through a supportive policy and framework.
- II. Capacity building: training for social enterprises in business planning, feasibility studies, market analysis, strategic planning, funding and financial management.
- III. Facilitate their access to capital, information and markets.
- IV. Creating a forum for social enterprises and social equity funds to come together and explore mutual partnerships.

## Sustainable Forestry

**S**ustainable forest management is defined as “the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems.”<sup>37</sup>

Cambodia's rich forests are strategic assets for the country contributing to national development. They provide industrial logs for exports, fuel wood and food for rural communities in the vicinity and a habitat for bio-diversity. They also regulate water flows in the Mekong river system, and prevent soil erosion.

The whole rural economy of Cambodia depends on fish and rice, both of which are dependent on maintaining water flows, which is regulated in part by forest cover.<sup>38</sup>

The Royal Government of Cambodia is committed to the development of sustainable forestry. Forestry Administration, a government authority under the Ministry of Agriculture, forestry and Fisheries, acts as the national agency of excellence for sustainable forest management, making a maximum contribution to the Cambodia's socio-economic development.

The government's National Forest Sector Policy states the following national goals: environmental protection, biodiversity conservation, poverty reduction, economic development and good governance.

Government's commitment to sustainable forestry practices is commendable in view of the fact that the forest cover declined from 13.2 million hectares (73 % of land) in 1969 to 10.6 million hectares (58% of land) in 1997, a 14% drop.

Illegal logging is a real threat to Cambodia's forests. Illegal logging however is a global problem. The World Bank estimates that governments lose US\$5 billion annually in revenues as a result of illegal logging while overall losses to the national economies of timber producing countries add up to an additional US\$10 billion per year.

However, there is a need to firmly deal with the problem of illegal logging and at the same time increase the supply of timber from sustainable forests to maximize revenue for the government which then can be used for socio-economic development.

Apart from revenue loss, illegal logging also leads to unsustainable forest management, destroys bio-diversity, speeds up climate change, distorts market by creating unfair

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<sup>37</sup> UN Food and Agriculture Organization

<sup>38</sup> Independent Forest Sector Review 2004

competition for legal timber, widens income disparities by taking away livelihoods from forest-dependent communities and perpetuates corruption.

Sustainable forestry practices can preserve Cambodia's forests while boost Cambodia's timber or wood-based exports at the same time. Sustainable forestry management can eventually help the government lift the moratorium on logging and open up a new source of revenue. Sustainable forestry can increase revenue and make a positive impact on socio-economic development of rural communities as it is aimed at meeting the social, economic, ecological, cultural and spiritual needs of present and future generations.

Developed countries are increasingly placing restrictions on import of timber sourced in unsustainable manner. Consumers in these markets are also showing growing preference for products made from wood obtained from sustainable forests. These developments have given rise to several forest certification schemes.

There are several international initiatives to promote forest certification. However Forest Stewards Council (FSC) and the Program for the Endorsement of Forest Certification Schemes (PEFC) are the two most influential independent organizations offering forest certification schemes.

A number of companies in Vietnam, the Philippines, Indonesia, Malaysia and Singapore in South-east Asia have taken initiatives successfully seeking Chain of Custody Certification the PEFC (Program for the Endorsement of Forest Certification Schemes) and Forest Stewards Council (FSC). Some companies have obtained Forest Management Certification for sustainable forestry practices boosting their competitive edge in the marketplace.

Malaysia has a national certification scheme called Malaysian Timber Certification Scheme and is a member of PEFC. Indonesia has also introduced a national timber certification scheme.

In Vietnam, 158 companies obtained Chain of Custody Certification from FSC since 2004 gaining a significant competitive advantage in the global market for sustainable forestry products. Chain of Custody Certification, usually sought by wood processing companies, traders, suppliers and retailers, assures customers that enterprise has a verifiable system in place to trace the flow of wood from certified forests.

It is important for Cambodia to develop competencies for sustainable forest management and start promoting forest certifications to build credibility for its forest products in the sustainability conscious markets, particularly Europe and the US.

### **Forest certification schemes**

Forest certification schemes emerged in 1990s after businesses came under pressure to practice corporate social responsibility and make sure that their wood-based products are made of wood sourced from sustainably managed forests.

Increased environmental awareness prompted consumers to ask for eco-friendly paper and wood products. Companies then turned to certifications to assure their customers that their products used wood sourced from sustainable forests and also to communicate their CSR commitment.

According to the Program for the Endorsement of Forest Certification Schemes (PEFC), a leading certification body, forest certification is a process which provides an assurance to purchasers of wood and paper products that the wood used in the products comes from sustainably managed forest. It involves the certification of forests (Sustainable Forest Management certification) and the certification of the wood flow via processing, manufacturing and trading enterprises (Chain of Custody certification) to the final consumer.<sup>39</sup>

#### Indonesia's Teak Farms

##### **A Sulawesi Cooperative Supplies Certified Teak to the World Market**

A group of villagers in Indonesia's South Konawe district have succeeded in establishing a certified teak plantation with the help of NGOs and CSR-oriented companies.

The farmers have taken to managing their home teak plots so responsibly that they have merited certification by the Forest Stewardship Council (FSC). The certificate was issued by the Rainforest Alliance's SmartWood program, an FSC accredited certifying body. Whereas once these farmers might have earned supplemental income by risky illegal logging, SmartWood certification means they can now command premiums high enough from their own teak plots to survive financially. The premiums for certified teak may be significantly higher than illegally logged teak because the demand is high.

The road to certification involves a rigorous process. In South Konawe District, people from forty-six villages started by creating a cooperative called Koperasi Hutan Jaya Lestari (KHJL). Nearly two hundred farmers joined the cooperative.

In 2004 they began working with Tropical Forest Trust, a non-profit organization based in Switzerland, to close the gap between existing management practices and those that the FSC deems as responsible forestry. KHJL applied for the certification assessment at the end of 2004 and received the certification in May 2005 after on-site audits.

Farmers like this model because it allows them to maintain traditional land-use practices, while servicing the global teak supply chain. Teak plots are usually one to ten hectares, intercropped with other cash crops such as cocoa, coffee, sago, cashews and pepper and candlenut trees, to ensure a diversity of income sources without overtaxing the soil's fertility.

KHJL's certification was funded through Tropical Forest Trust with the support of retailers from Europe and Indonesia who all wanted to secure a reliable supply of FSC-certified teak. Castorama, a French furniture retailer which provided financing for the certification, gained by the availability of certified raw material while the local community got access to the global market.

Now participating farmers have extra income for school fees, building and repairing of houses, medical expenses and marriage ceremonies. And they don't have to rely on illegal logging on state forests as they have their own reliable source of income.

*Source: Rainforest Alliance*

<sup>39</sup> The PEFC Council

At present, there are more than 50 forest certifications schemes operating worldwide. Some of the most prominent forest certifications are:

1. Forest Stewardship Council (FSC)
2. Sustainable Forestry Initiative (SFI)
3. Program for the Endorsement of Forest Certification Schemes (PEFC)
4. Canada's National Sustainable Forest Management Standard (CSA)

FSC is the fastest growing certification system in the world.<sup>40</sup> FSC certified forests are distributed over 81 countries.

FSC has also developed certification programs for small operations and group certification for small forest owners.<sup>41</sup>

Most certified forests are located in Europe and North America. Developing countries find it difficult to meet and manage high standards of sustainable forestry. Building their capacity to implement sustainable forestry standards to obtain certifications is needed.

### Potential benefits of CSR

- Harmonious relations with local communities, license to operate
- Access to ethical trade markets: sustainable timber and wood products
- Sustainable forestry practices mean timber companies can hope to have a long lasting supply of timber and forest products
- Conservation of forests, wildlife and bio-diversity

<sup>40</sup> UN FAO 2007

<sup>41</sup> Forest Stewardship Council

### Sustainable Forestry Management in Malaysia

Sustainable Forestry Management (SFM) has helped Malaysia preserve its valuable forests and at the same time create a flourishing export industry based on timber. According to FAO statistics (2006), Malaysia's export value of timber and timber products in 2004 was USD3.53 billion. In 2007, revenue from exports of timber and timber products reached \$6.37 billion.

Malaysia has achieved this by a combination of timber certification scheme, developing secondary and tertiary processing industries for value added timber products and restricting export of timber in log form to encourage domestic industry to produce timber products to maximize revenue and employment.

Of the total 19.42 million hectares of forested land, 74% or 14.29 million hectares are gazetted as Permanent Reserved Forests (PRFs). Another 1.83 million hectares outside the PRFs are gazetted as National Parks and Wildlife Sanctuaries under various legislations. These 16.12 million hectares are forests to be maintained in perpetuity by law. This is a fundamental pillar of Malaysia's commitment to SFM.

Within the PRF, 3.11 million hectares (22%) are designated as protection forest while the remaining 11.18 million hectares (78%) constitute production forest, where commercial harvesting of timber on a predetermined rotational cycle is permitted. Production forest represents about 57% of the total forested area in Malaysia.

The key importers of Malaysian timber products include Belgium, China, Germany, Hong Kong, India, Italy, Japan, the Netherlands, Pakistan, Saudi Arabia, Singapore, South Korea, Taiwan, Thailand, United Kingdom, USA and Viet Nam.

Today, it remains one of the world's leading exporters of tropical hardwood products (logs, sawn timber, plywood, medium density fibre board, chipboard, veneer and other panel products, mouldings, builders' carpentry and joinery, wooden furniture as well as rattan products).

*Source: Malaysian Timber Council*



- Sustainable development: social, economic and environmental
- Emission reduction, climate change mitigation
- Enhanced international reputation

### **Promoting sustainable forestry in Cambodia**

Following measures may be considered to promote sustainable forestry in Cambodia:

- I. Introduce a national certification scheme for forests in collaboration with an internally reputed accreditation body such as the Forest Stewardship Council and in close partnership with private sector. The scheme should also include special programs for small operations and small group/cooperative/community based forest operations.
- II. Capacity building at various levels i.e. institutions, concessions, cooperatives, traders, millers and processors to develop competencies for adopting certification schemes.
- III. Create awareness about the growing global demand of certified timber products such as paper, furniture etc among the private sector and encourage investment in wood processing and furniture industry. Availability of certified timber will attract multinational furniture retailers such as Ikea to source timber products from the country.

## Microfinance

**M**icrofinance refers to the provision of financial services to poor or low income groups including consumers and the self employed.<sup>42</sup> Microfinancing goes beyond giving small credits to the poor and now covers a whole range of sustainable banking services including savings, leasing, mortgages, money transfer, pensions and insurance for the underprivileged.

NGOs are using microfinancing very successfully to reduce poverty and improve livelihoods in many countries. Most notable examples include Grameen Bank and BRAC in Bangladesh, Prodem in Bolivia and Washington headquartered FINCA International. According to the Microcredit Summit Campaign, over 3000 of microcredit NGOs were lending to about 113 million clients by the end of 2005.<sup>43</sup>

In Bangladesh, Grameen Shakti, a subsidiary of Grameen Bank, is using microfinancing to bring renewable energy to the masses and generate employment (see box).

Microfinancing has also become part of corporate social responsibility program of many banks and financial institutions. Banks see this as an opportunity to use their core competence and resources to make a positive difference to society. For example, microfinancing is included in the CSR program of Deutsche Bank (see box). HSBC, National Australia Bank, the Bank of the Philippine Islands and India's ICICI Bank and HDFC Bank also include their microfinancing initiatives in their CSR programs. Under the program, they provide credit to microfinancing institutions at a low interest rate. ABN AMRO Bank includes its microfinancing operations in its Sustainable Development initiatives.

Banks and financial institutions can tremendously strengthen the microfinancing institutions by providing much needed capital and management skills under their corporate social responsibility initiative.

Companies outside banking and finance industry can also participate in microfinancing activities by partnering with MFIs. A national CSR survey of companies in India by a prominent newspaper the Times of India said that 99% respondents believed microfinancing should be a priority in their CSR program.<sup>44</sup>

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<sup>42</sup> Microfinance Handbook: an Institutional and Financial Perspective. Washington DC: The World Bank, 2000

<sup>43</sup> State of the Microcredit Summit Campaign Report 2006, Microcredit Summit Campaign, Washington, 2006

<sup>44</sup> The Times of India, 17 Aug 2008

## Deutsche Bank's CSR and microfinance

Deutsche Bank was the first bank to create a microfinance fund ten years ago. Approximately \$170 million have been channelled to more than 100 microfinance institutions in more than 45 countries over the years. Due to exceptionally good loan recovery ratios and short maturities, the microfinance institutions can quickly reuse the money to issue new loans. As a result, an aggregate loan volume of \$1 billion has been granted to 2.1 million borrowers so far.

Deutsche Bank microfinance programme was developed and launched in 1998. Managed from the US, the Bank joined forces with progressive clients of its Private Bank to establish the Deutsche Bank Microcredit Development Fund (DB MDF) as a unique financial tool fuelling the growth and reach of microfinance programmes around the world.

In 2002, an independent UK registered charity was established with initial funding of £500,000 from Deutsche Bank with the objective of providing soft loans to microcredit finance houses which in turn, leverage the loans with local lending organisations.

Since its inception, the DB MDF has invested over a total of \$6.5 million in loans to some 50 microfinance institutions in 27 countries, enabling more than \$42 million to be leveraged in private financing and cumulative lending capacity to the very poor.

Another initiative, Global Commercial Microfinance Consortium fund provided lending of \$75 million to 38 microfinance institutions in 22 countries.

“db Microfinance-Invest No.1”, an initiative launched in 2007, is the first microfinance product directed at private clients. The product was also the first securitization of subordinated microloans with an external rating worldwide. \$87 million under the fund, which is largely invested by the bank's clients, will be used by 21 microfinance institutions to grant at least 100,000 microloans in 15 developing countries and emerging markets.

*Source: Deutsche Bank*

Microfinance institutions are also using information and communication technology to improve efficiency of operations, create new micro-business opportunities for the poor, and provide telecommunications access for them.

Microfinance offers a unique opportunity for the civil society, private enterprise and local governments to come together to contribute to a sustainable socio-economic development of rural communities as well as the urban poor.

Relevant to Cambodia is the United Nations Capital Development Fund (UNCDF). UNCDF, which works closely with UNDP, has launched a program for the Least Developed Countries (LDCs) to promote microfinance by using unique combination of investment capital, capacity building and technical advisory services to promote microfinance and local development in the LDCs. UNCDF has already assisted a number of projects in Cambodia that succeeded in generating greater economic and social development and improve quality of life for rural people.<sup>45</sup>

The global microfinance sector currently has an estimated total loan volume of \$25 billion serving over 100 million clients- only a fraction of the demand by over 1 billion potential micro-borrowers. This indicates a massive demand-supply gap of \$250 billion.<sup>46</sup> Deutsche Bank estimates that the institutional and individual investment in the MFI sector will increase from \$4.4 billion in 2006 to \$20 billion in 2015.

This optimistic outlook presents a tremendous opportunity for Cambodia to attract a fair share of investment in the MFI sector by introducing enabling measures.

<sup>45</sup> <http://www.uncdf.org/english>

<sup>46</sup> Microfinance: An emerging investment opportunity, Deutsche Bank Research 2007

## MFI Sector in Cambodia

Private sector can play an important role in the development of microfinance by bringing financial management expertise and technology. One such example in Cambodia is offered by Wing Money, sponsored by ANZ Royal Bank and supported by IFC MPDF and Accenture. Wing Money plans to offer payment facilities using mobile technology to the poor who traditionally do not have access to banking.

Significant microfinance institutions in Cambodia include ACLEDA, AMK, PRASAC, AMRET, TPC, CREDIT, CEB and VFC which all have won international awards. ACLEDA now operates as a commercial bank.<sup>47</sup>

ACLEDA remains the largest MFI player with a market share of 40% in loans. Its status as a commercial bank allows it to dominate the savings segment with almost 98% market share.

Cambodian Business Integrated in Rural Development Micro Finance Institution (CBIRD MFI) is an example how microfinancing can be used to meet government's goals of alleviating poverty by providing access to credit and savings to the rural poor. CBIRD MFI is currently active in five provinces: Battambang, Banteay Meanchey, Pailin, Prey Veng and Siem Reap.<sup>48</sup>

TCP, another MFI, has a 'social vision and a business orientation that provides poor rural women with the economic opportunities to transform the quality of their lives and their communities through the provision of effective and sustainable client empowering financial services.'<sup>49</sup>

<sup>47</sup> Cambodia Microfinance Association Annual Report 2007

<sup>48</sup> [http://www.cbird.com.kh/advertise/about\\_history.html](http://www.cbird.com.kh/advertise/about_history.html)

<sup>49</sup> [www.tpc.com.kh](http://www.tpc.com.kh)

## Solving energy problem through microfinance

Nobel laureate Muhammad Yunus has successfully extended his microfinance magic to power rural communities with renewable energy that creates more jobs and income for the poor and reduces greenhouse gases.

Pioneered by Grameen Shakti (means Rural Power)- a subsidiary of Prof. Yunus's now fabled Grameen Bank- the idea looks simple. Develop an affordable Solar Home System and offer it to rural population through a soft credit facility. Add to that a low cost bio-gas solution for cooking needs. And ask each customer to plant five trees in the backyard. The outcome is surplus carbon credits that potentially can be used to offset emissions in the developed world.

Started in 1996, the program has come as a god-send in a country of 145 million where 80% people live in poverty and 70% have no access to grid-electricity. They have to rely on highly polluting Kerosene oil and diesel generators for lighting and depend on bio-mass, wood, cow dung and crop residue for cooking which not only create indoor pollution but also lead to deforestation, soil erosion and floods.

With a humble beginning of 228 homes in 1997, Grameen Shakti now powers over 100,000 homes, currently adding 5000 homes every month using photovoltaic technology. And three million trees have been planted under the plantation scheme.

The parent company Grameen Bank provides low interest finance and the customer pays only 10-15% initially and the rest in 36 installments for a solar home system that has a life of 25 years. The total cost of a 50 Watt system –the most popular size- is \$400.

An in-house research laboratory helped Grameen Shakti reduce the product cost, adapt the technology and develop a range of accessories such as a mobile phone battery charger. Grameen Shakti is using green energy revolution to attack poverty by taking an integrated approach. It is training local youth- 1000 trained so far- who are then employed as technicians for the installation, operation and maintenance of solar systems. 'Women engineers' trained by it are subcontracted to produce solar system components and run repair shops.

Availability of light is enabling rural artisans and traders to stretch working hours creating extra income. The solar technology has opened up new business opportunities in villages such as mobile phone charging shops, TV Halls, computer training centers and pay phone services.

The innovative approach has won Grameen Shakti several major renewable energy awards including the Right Livelihood Award in 2007 widely known as the Alternative Nobel Prize.

Vision Fund (Cambodia), a microfinance venture supported by the World Vision, has a mission of 'eliminating the unjust access to economic resources by the poor and release their entrepreneurial spirits by providing a wide range of financial services in synergistic partnership with key development players to maximize the effort for economic development and poverty alleviation.

National Bank of Cambodia has been taking keen interest in promoting microfinance industry and has organized two national summits on microfinance in 2006 and 2007 respectively bringing various sectors together. Cambodia Microfinance Association, established in 2004, already has 14 members and provides a national forum for the microfinance institutions.

Altogether, there are 17 MFIs operating under licenses from the National Bank of Cambodia and there is one operator which holds a commercial bank license. Among them, they cover the entire 24 provinces.

CMA reports that on time repayment rate by micro-credit clients in Cambodia is over 99% reflecting the acquired business acumen of clients and management discipline of microfinance operators.<sup>50</sup>

According to CMA, MFI sector in Cambodia has an outstanding loan portfolio of over \$272 million covering over 777,000 families who have taken loans. Savings deposit accounts amount to more than \$350 million collected from 356,000 families. CMA estimates that 31% of the total population is a beneficiary of microfinance services.

However, MFIs, with an exception of ACLEDA, currently heavily depend on international funding by donor organizations. It is critical that they have access to international capital markets as private equity funds and socially responsible investing funds have started investing in high quality MFIs around the world. Cambodian MFIs will need to project an image of high quality governance, transparency, strong management systems and innovative products to attract such funds.

An enabling regulatory environment should aim to minimize risks for foreign investors in the MFI sector. Investors will be less attracted if the financial reporting standards are low, exchange rate controls are unpredictable, there are risks of currency devaluation and regulatory environment is ambiguous and if there are restrictions on the transfer of private capital.

Cambodia's 84% population depends on agriculture. However, due to higher incidence of poverty, farmers lack funds needed to buy seeds, agricultural equipment and fertilizers. Since they don't have access to traditional banks, they turn to local money lenders to borrow money and invariably get trapped in debt. Microfinancing can go a long way in improving their lot and contributing to sustainable development of Cambodia.

#### **Benefits of promoting microfinance**

- Access to vast rural markets for various products and services targeted at the poor
- Entrepreneurial development at the rural level improving living standards
- Private sector participation in socio-economic development

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<sup>50</sup> Cambodia Microfinance Association Annual Report 2007

- Socio-economic development of rural communities
- Development of a MFI sector, more employment opportunities in provinces
- Attract foreign investment from banks, social equity funds

### **Promoting CSR in microfinancing sector**

CSR can play an important role in the development of microfinance sector by addressing some of the key issues such as funding, investment, management systems and governance.

- I. Provide an enabling regulatory environment by introducing an MFI law to direct the healthy growth of the sector.
- II. The banking sector should be encouraged to provide easier financing to MFIs by introducing guidelines. For example, banks in India are required to earmark 40% of their lending for the priority sector which includes microfinancing. Such measures have given a boost to the MFI sector in India.
- III. Banks themselves should be encouraged to take voluntary steps to enter MFI sector either directly or through financing of MFIs.
- IV. IT companies could consider working with MFIs to help build efficient IT infrastructure for the MFI sector so that they can scale up operations and have better management controls.
- V. Companies which produce goods and services needed by the rural masses such as mobile phone, renewable energy (solar, biogas) and job-oriented training courses should be encouraged to form alliance with MFIs to introduce their products and services to rural areas which will increase the quality of life and add to socio-economic development.
- VI. Introducing strong corporate governance measures for the MFI sector by way of legislation and/or voluntary standards adopted by the Cambodia Microfinance Association. This will increase the possibility of Cambodian MFIs to attract foreign investment by private equity and socially responsible investing funds.

## Socially Responsible Investing Funds

**S**ocially Responsible Investing (SRI) Funds present a unique opportunity for Cambodia to tap into more than \$4 trillion investible funds which are available for only those companies that meet corporate social responsibility standards.

Socially Responsible Investing is an investment process that considers the social and environmental consequences of the investment. It is a process of identifying and investing in enterprises that meet corporate social responsibility standards.

According to the Social Investment Research Analysts Network (SIRAN), a working group of the Social Investment Forum, "CSR includes issues such as environment, health and safety, diversity and human resources policies, and human rights and the supply chain." SRI involves evaluating companies on CSR issues, analyzing corporate social and environmental risks, and engaging corporations to improve their CSR policies and practices.

SRI funds have grown from \$639 billion in 1995 to \$2.71 trillion in 2007 in the US. In Europe, SRI funds have grown from €200 billion in 1995 to €1 trillion in 2006 in Europe. Even mainstream money managers have started considering CSR in investment decisions.

### **The following factors are contributing to the robust growth of SRI:<sup>51</sup>**

- Money managers are increasingly incorporating social and environmental factors into their investing practices, acknowledging the demand for social investing products and services from institutional and individual investors, socially concerned high-net-worth clients, individuals seeking SRI options in their retirement and college-savings plans and "mission-driven" institutions such as foundations, endowments, labour unions, and faith-based investors.
- New products and fund styles are driving growth in socially and environmentally screened funds, especially ETFs and alternative investment funds such as social venture capital and double- and triple-bottom-line private equity.
- A growing concern about climate change and its risk for portfolios is intensifying the interest in SRI among money managers. Investor demand is growing for portfolio opportunities in clean and green technology, alternative and renewable energy, green building and responsible property development, and other environmentally driven businesses.
- A large and expanding number of institutional investors are actively supporting shareholder resolutions on social, environmental, and corporate governance issues and joining investor coalitions, such as the Investor Network on Climate Risk, to make their concerns known about the risks and opportunities associated with issues such as climate change.
- Increasing numbers of institutional investors, fund families, and money managers are incorporating criteria related to the crisis in the Sudan into portfolio management and shareholder advocacy, whether through targeted divestment or active engagement

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<sup>51</sup> 2007 Annual Report on Socially Responsible Investing Trends in the US, Social Investment Forum

with companies exposed to the risks of doing business in such a volatile, repressive regime.

- The expansion of market-rate opportunities and other industry developments are making it easier for a broad range of investors to participate in the expanding field of community investing. Institutional investors are proactively allocating portions of their portfolio to community investing options in order to deepen the social impact of their investments.
- Investors are also increasingly embracing international microfinance opportunities to promote positive social and economic development abroad.

According to Social Investment Forum's 2007 report on SRI trends in the US, money managers are increasingly incorporating social and environmental factors into their investing practices, acknowledging the demand for social investing products and services from institutional and individual investors, socially concerned high-net-worth clients, individuals seeking SRI options in their retirement and college-savings plans and "mission-driven" institutions such as foundations, endowments, labour unions, and faith-based investors.

Keeping with SRI trends, several socially and environmentally screened indices have been launched such as Dow Jones Sustainability Indexes and FTSE4Good to help investing in CSR-enabled companies. Socially screened funds have been launched to meet investors' demands for socially responsible investing. Examples include KLD/Russell/Mellon products, Screened investment offerings from Morgan Stanley, Citigroup, Credit Lyonnais and Vanguard.

According to Social Investing Forum's 2007 report, community investing is the fastest growing area of SRI. Over the past decade, community investing has grown over 540-percent, from \$4 billion to \$25.8 billion in assets. The Social Investment Forum's "1% in Community" campaign encourages all investors to direct at least 1% of their investments to community investing products that serve communities overlooked by traditional lenders. Since launching the campaign in 2001, Forum's members have increased their investments in community investing from \$800 million to \$2.4 billion.

### **SRI potential in Cambodia**

Being one of the least developed countries, Cambodia has huge potential to attract SRI. However, large scale SRI investment would also require a strong corporate governance culture.

Community Investing should be of particular interest to Cambodia to attract investment for its community-based projects. Other potential sectors for SRI include microfinance institutions, social enterprises, fair trade, organic agriculture, sustainable and eco-tourism projects and pro-poor businesses.

Mainstream SRI funds can be attracted for the entire range of industries which are able to demonstrate their CSR performance.



Promoting CSR at a national level can help Cambodia in attracting SRI. As Cambodia is aiming to open a stock exchange, listing of CSR certified companies and partnering with SRI Indices can attract substantial foreign investment through the SRI route.

**Promoting Socially Responsible Investing (SRI) in Cambodia:**

- I. Create awareness among the private and public sectors through a workshop on SRI.
- II. Collaborate with various industry associations to develop and introduce sector-specific CSR programs.
- III. Encourage companies to communicate their CSR programs through annual CSR reports.
- IV. Collaboration between the upcoming stock exchange and international sustainability indices such as FTSE4Good or Dow Jones Sustainability Index to jointly develop an index for Cambodia listed companies.

## Good governance

**T**ough anti-corruption regulations in the US and Europe discourage multinational companies to enter markets where they need to bribe to run operations. Large multinational companies have also committed to UN Global Compact Principles which includes anti-corruption measures. Companies are also wary of indulging in bribery as they stand to lose confidence of their own investors and consumers if a bribery scandal breaks out.

Recent studies have shown that corruption hurts the development of SMEs.<sup>52</sup> Findings from two different surveys show that SMEs pay much higher percentages of annual revenues in bribes to public officials<sup>53</sup>, and make additional payments to get things done much more frequently than large companies.<sup>54</sup>

Paying a range of informal payments to public sector officials increases the cost of operation for SMEs and hinders their growth. According to a World Bank study, many businesses in the developing world prefer to operate in the informal economy because they do not want to get involved with the public sector. One reason for this is the financial cost of regulatory compliance and of dealing with bureaucratic obstacles.<sup>55</sup> The World Bank says that bribery has become a \$1 trillion industry.

UNGC states that the impact of corruption on the private sector is considerable - it impedes economic growth, distorts competition and represents serious legal and reputational risks. Corruption is also very costly for business, with the extra financial burden estimated to add 10% or more to the costs of doing business in many parts of the world.<sup>56</sup>

When the legal and regulatory environment is full of complex requirements such as arbitrary decisions, frequent requests for bribes and red tape, businesses are discouraged to enter the formal sector, preferring to continue operating in the informal sector.

Among other countries in South-east Asia which have enacted anti-corruption laws include Thailand, Vietnam, Philippines, Indonesia, Malaysia and Singapore.

Governance and corruption are major issues that Cambodia needs to address if it desires to promote the development of private sector and attract good quality foreign investment especially Socially Responsible Investing.

Cambodia has further slipped in the just released Transparency International's Corruption Perception Index 2008 being ranked as the 15<sup>th</sup> most corrupt nation in the world and the second most corrupt country in Asia after Myanmar.

A National Integrity System Study of Cambodia by Transparency International and the Centre for Social Development in 2006 said that "although the government shows some signs

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<sup>52</sup> Corruption Prevention to Foster Small & Medium-sized Enterprise Development, 2007 by UNIDO

<sup>53</sup> WB/EBRD (2000), Business Environment and Enterprise Performance Survey

<sup>54</sup> World Bank, Investment Climate Surveys (ICS): <http://rru.worldbank.org/InvestmentClimate/>

<sup>55</sup> Djankov (2004), *Doing Business in 2005: Understanding Regulation*

<sup>56</sup> <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/anti-corruption.html>

of political will against corruption, after a decade of cautious political peace and billions of U.S. dollars in aid, the systems in place to promote integrity and prevent corruption are still weak and lack the capacity to carry out their functions properly.”

A 2006 study by the Economic Institute of Cambodia revealed that the private sector pays unofficial fees of about 2.8% of annual turnover, or \$330 million per year.<sup>57</sup>

According to the World Economic Forum's Global Competitiveness Report for 2006-07, the three most problematic factors for doing business are corruption, inefficient government bureaucracy, and policy instability.

According to the Enterprise Survey (2003), over 50% of firms cite corruption as a major constraint to firm investment, followed by crime, and economic and regulatory policy uncertainty.

On the positive side, Cambodia has moved up 15 places in *Doing Business 2009*, a report just published by IFC and the World Bank, that compares the ease of doing business around the world. The report says that “Cambodia’s significantly higher standing is the result of reforms that make it easier for businesses to get credit and to close a business. While much progress remains to be done in several areas, the report names Cambodia as the world’s top reformer in easing access to credit.”

Building on the *Doing Business 2009* ranking, Cambodia needs to firmly tackle corruption to attract foreign investors. By promoting CSR, which includes anti-corruption measures, Cambodia can send positive signals to the global investment community.

Multinational companies operating in Cambodia complain about the inconvenience caused because of “culture of informal payments.” Since global CSR policies of these companies do not allow them to pay bribes, they find it difficult to get their work done at government departments.

They also fear losing out to those companies which may not have a strict anti-corruption policy and are willing to indulge in corrupt practices to gain business benefits.

### **Promoting clean governance in Cambodia**

Promoting good corporate governance and anti-graft practices requires a strong collaboration between the private and public sector. At the same time, companies themselves need to take measures as part of their corporate social responsibility program to include zero-tolerance anti-graft policies.

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<sup>57</sup> EIC 2006

Some of the measures that may be considered to promote anti-corruption practices in Cambodia may include:

- I. Companies should pledge to anti-corruption policies included in their corporate social responsibility program. They should clearly state their anti-graft policy and publish it on their websites and on other communication channels.
- II. A collective initiative by business groups to pledge to anti-corruption policies as individual action alone may not be effective. In Cambodia, a similar initiative though has just been started called "Clean Business Initiative."
- III. Business associations should adopt anti-corruption policy and encourage members to follow such policies. Business associations can even collaborate with important public sector institutions and agencies to sign an anti-corruption memorandum of association which allows for information sharing on cases of corruption and commits to detecting and preventing corruption at all levels.

## Benefits of Promoting CSR

The above analysis of various sectors and the SWOT analysis clearly indicate that promoting corporate social responsibility at national level in a concreted and strategic manner can bring a range of benefits.

The main advantages of corporate social responsibility can be summarised as:

1. Increased market access: Fairtrade, sustainable tourism, eco-tourism, organic products, toys, sports goods, sustainable timber etc.
2. Foreign investment: Socially Responsible Investing, investment in ethical production, sustainable tourism, social enterprises, microfinancing institutions, high quality foreign investment.
3. Integration with international markets: Corporate governance, intellectual property rights, ethical business practices, financial institutions and stock markets.
4. Robust development of private sector: New business opportunities, more enabling environment, increased access to markets and investment, human resources, competitive advantage.
5. Socio-economic development: Private sector's enhanced role in alleviating rural poverty, human resources development, inclusive business or pro-poor business development, social enterprises.
6. Rural development: Organic farming, fairtrade, sustainable tourism, microfinance institutions, access to alternative energy (solar power, bio-gas).
7. Climate change mitigation: Environmental initiatives, emission reduction programs, renewable energy, forest conservation, organic farming.
8. Enhanced reputation and brand image: For both the country and the enterprises. Improved ranking on international indices such as World Bank's Doing Business Index, World Economic Forum's Global Competitiveness Index, Transparency International's Corruption Perception Index.
9. Risk management: CSR is an excellent tool for managing risks which can potentially arise from negative media coverage of poor working conditions, and industrial action, workplace accidents, legal-action for non-compliance, environmental disasters, product safety and quality and community disputes.

## Risk factors of CSR promotion

CSR can potentially bring disrepute and lead to disadvantages if it is not properly understood and honestly implemented. It is important to avoid the common pitfalls of CSR as listed below:

- ✘ CSR is not mere public relations gimmick. Companies, including large multinational firms, commonly make the mistake of using CSR as a PR front. Sooner or later, they will be found out and lose credibility among stakeholders.
- ✘ There are many approaches to CSR. Ultimately, each company needs to discover and develop its own approach based on the nature of its business, markets it operates in, socio-economic and regulatory environment, competition, risk analysis and stakeholders expectations. Companies often make the mistake of launching CSR programs which are not based on a serious analysis and business-case. Such programs do not bring any real advantage for the organization. Indeed, ill-conceived CSR programs can result in ignoring the real issues and risks leading to reputational disasters.
- ✘ Just managing to meet legal compliance is not CSR. CSR begins after a company has achieved legal compliance. Companies operating in supply chain such as garment, commonly mistake legal compliance with CSR. Companies aspiring to gain real advantage from CSR must move beyond CSR and identify areas where they can improve efficiency, productivity, profitability and competitiveness through CSR.
- ✘ A company's CSR program must be aligned with its business goals and its management and employees should be able to clearly see the link. Companies commonly make the mistake of launching sporadic and ad hoc CSR initiatives which are not linked to company business goals. Such companies are not able to reap the strategic advantages of their investment on CSR.
- ✘ A company's CSR should also be linked to its core strengths. Companies which are not able to use their core competence in their CSR program soon lose focus and interest in their own CSR programs.
- ✘ Companies often make the mistake of launching CSR without proper planning and clear goals. Lack of planning and clarity of goals and an absence of measurement criteria ultimately make the CSR program ineffective and misdirected.
- ✘ Securing the buy-in of employees is important. Companies commonly ignore this aspect and fail to get full support from employees. Worse, their own employees become critical of the CSR program of the company. If the employees don't see and understand the strategic intent of CSR, the company cannot hope to achieve companywide integration of CSR.
- ✘ Companies fail to articulate their CSR communication meant for various stakeholders and don't get full mileage of their CSR programs. Producing annual CSR report is therefore important to establish a company's reputation as a CSR-enabled company.

## Conclusion and recommendations

Corporate Social Responsibility is a relatively new concept in Cambodia. The majority of businesses and stakeholders are still not fully aware of the strategic importance of CSR as a tool to increase the competitiveness at the company as well as at the industry level. At best, it is understood in a narrow sense as a company's responsibility to support community work. Not surprisingly, some companies have taken up community work as part of their CSR.

With the arrival of multinational companies, though there are not many, the subject of CSR has started receiving some attention as they begin launching their CSR programs in Cambodia. Ironically, local companies' interest in CSR remains low.

Interestingly, at least two strategic CSR programs have already produced immense socio-economic benefits for Cambodia. First, ILO-BFC monitoring of working conditions in garment factories has put Cambodian garment industry on the world map in a short span of time. Second, British American Tobacco's socially responsible contract farming program has improved the lot of hundreds of farmers and benefited the economy as the tobacco export has risen from 400 tonnes in 2003 to around 1500 tonnes since the past couple of years.

Similar success stories are waiting to happen in tourism, organic farming, fairtrade, microfinance, financial industry, extractives industries, forestry, socially responsible investing, inclusive business, social enterprise, renewable energy, carbon trading and possibly several other areas if private, public and civil society sectors come together to systematically promote Corporate Social Responsibility and build an international image for Cambodia as a hub for responsible business practices.

Failing to do so will potentially inhibit the private sector development, make the industry less competitive in the international market and repulse high quality foreign investment. Shunning corporate social responsibility can eventually affect the reputation of the country and the industry.

Effective promotion of corporate social responsibility would require a three-way approach including capacity building, advocacy and policy reforms.

In view of the low awareness of the potential of CSR, the most important step is to build capacities at all levels. This should be supported by an enabling regulatory and business environment. These steps will be futile if there is no mechanism for an ongoing dialogue among stakeholders from private, public and civil society sectors. Policy reforms would require filling regulatory gaps to benchmark the minimum level of business responsibility, and provide incentives for responsible behaviour coupled with a robust enforcement.

### **Establish a national organization for the promotion of CSR**

Top priority should be to establish a national multi-stakeholder organization for promoting CSR. The mission of this organization should be to increase Cambodia's competitiveness and facilitate socio-economic development through CSR.

The organization should strive to bring all stakeholders together and develop a national CSR program aiming to increase the competitiveness of Cambodia while achieving socio-economic development of the country. The national CSR program should be complemented by sector specific CSR programs and goals.

The forum's main responsibilities may include:

- Develop a national level CSR framework.
- Facilitate the development of sector-specific CSR strategies and programs working closely with the government, relevant industry associations and civil society.
- Provide a forum for an ongoing stakeholder dialogue on CSR.
- Create work groups dedicated to important sectors and assist the industry and the public sector to introduce enabling policies and regulations.
- Develop programs and strategies for introducing and promoting relevant standards and certifications for various sectors to enhance their market access and competitiveness.
- Organize training, workshops and seminars to build capacities at all levels.
- Produce an annual CSR Report for Cambodia compiling case studies and their impact on economy, society and environment.
- Represent Cambodia in international CSR events by making presentations and networking with regional and global CSR organizations.

The following options could be considered for the establishment of a national CSR organization:

1. Convene a roundtable of key stakeholders from private, public, development and NGO sectors and unions to form a National CSR Forum, initiate a dialogue to determine a national CSR framework including an organization to drive the program. This can be a membership-based organization. Members elect a board and a permanent secretariat is established with funding for three years in the beginning with an aim to make the organization self-sufficient in that period.
2. Establish Cambodia chapter of UN Global Compact. UNGC, being a voluntary initiative, hinges on voluntary but active participation by the private sector. UNGC though provides global guideline in the form of ten-principles it does not offer specific frameworks and tools to address issues of specific sectors. At present,



Cambodia's private sector may not see much value in UNGC and may not be prepared to commit to UNGC principles without first developing competencies.

3. Support the establishment of an independent CSR organization which may operate as an NGO or a social enterprise.
4. The Ministry of Commerce takes the lead and establishes a Department of CSR. Development organizations provide funding and a CSR advisor to the ministry to develop a national CSR program in consultation with key stakeholders.
5. Royal Government of Cambodia takes the lead and sets up a Ministry of CSR on the lines of Britain. Development organizations provide initial funding and a CSR advisor to assist the ministry to develop a national CSR program.

A brief comparison of the above options is illustrated in the table on the next page.

**A comparison of various options for establishing a national CSR driver:**

<b>Option</b>	<b>Strengths</b>	<b>Constraints</b>	<b>Difficulty in implementation</b>
National CSR Forum	<p>Higher involvement of stakeholders, diversity of ideas, open dialogue, collective decision making and higher acceptability of decisions made. Good for dialogue.</p>	<p>Slow process, lower awareness among stakeholders themselves, and potential clash of 'agendas.'</p> <p>Lack of capacity and expertise.</p> <p>May be difficult to find effective owners.</p>	Medium
UN Global Compact	<p>Global organization, UN brand, worldwide network, access to UNGC resources, already established in many countries and signed up by hundreds of companies, UNGC support readily available to set-up local chapter. It provides a broad framework which can be used as a starting point. Good for learning, dialogue and partnership.</p>	<p>Has a set of global principles (10 principles) and does not have a mechanism for local customization or addressing issues which may fall outside its framework. UNGC principles are broad guidelines which will be of limited use in the context of Cambodia where more intense sectoral research, active promotion and intervention is needed with a specific focus on increasing the competitiveness of the country and industries. Civil society is divided over the effectiveness of UNGC. Considering a very strong</p>	Low

		presence of civil society in Cambodia which also includes UNGC critics, it may be a difficult task to make UNGC widely acceptable.	
Independent CSR Organization /An NGO or a social enterprise with a mission to promote CSR	<p>Market driven, professional, flexibility of operation, result oriented, can build wide range of competencies relatively faster, can develop and provide services that market needs.</p> <p>Higher acceptability by the private sector.</p> <p>Ability to work at the ground level with individual firms to provide hands on support to build CSR programs that will increase the competitiveness of the client firm.</p> <p>Better placed to bring together diverse stakeholders being an independent professional organization.</p> <p>Flexibility to work with diverse codes of conduct and develop sector specific programs.</p>	<p>Low motivation to initiate as there is not enough market to generate revenues to sustain operations.</p> <p>May need initial funding to set up until the market for its services builds up.</p> <p>Limited influence over stakeholders which can be overcome by actively supporting the organization.</p>	Low
Dept of CSR, Ministry of Commerce	High influence over stakeholders including businesses and investors.	Needed expertise and resources are not currently available in the	High

	<p>Ability to bring together stakeholders.</p> <p>Ability to attract funding and resources.</p> <p>Easier coordination with other ministries.</p> <p>Sends strong signals to the local and international community about the country's commitment to a balanced socio-economic development.</p> <p>Easier to introduce incentives for private sector to participate in CSR.</p> <p>Able to introduce national CSR priorities and guidelines in the best interest of the country.</p>	<p>public sector.</p> <p>May be instrumental in providing an overall CSR framework but cannot be expected to be involved in operations and implementations that cut across industry and sectors.</p> <p>May create an environment where the private sector does not take voluntary initiatives and rather waits for government guidelines for everything.</p>	
Ministry of CSR	<p>All of the above.</p> <p>Dedicated resources and a focussed approach to continuously promote CSR in a way that will achieve the key national objectives of competitiveness, FDI inflow, socio-economic development and international reputation.</p>	All of the above.	High

### THE WAY FORWARD

In spite of challenges involved in all the options, a practical approach may be to adopt the following two options:

1. National CSR Forum: Responsible for dialogue, national strategies and plans.
2. Facilitating an Independent CSR Organization/CSR NGO: Responsible for service delivery.

### Summary of barriers and recommendations to overcome barriers

This section provides a quick summary of current barriers which inhibit the promotion of CSR and the competitiveness of industries and relevant recommendations which have already been discussed in detail in the respective chapters of this report.

#### Summary of barriers and recommendations

S. No.	Barriers	Severity of barrier	Key recommendations	Potential champions
1	<b>Capacity barriers:</b> <ul style="list-style-type: none"> <li>▪ Low awareness</li> <li>▪ Lack of CSR expertise</li> <li>▪ Lack of leadership vision</li> <li>▪ Lack of information</li> <li>▪ Narrow understanding of CSR</li> <li>▪ Misconceptions about CSR</li> </ul>	<b>Very High</b>	<p>Workshops, seminars, conferences, training, dialogue, study tours, making information available through websites, reports and mass media, publish reports and case studies, include in business management curriculum in local schools/universities.</p> <p>Target groups: private sector, public sector (relevant ministries), NGOs, development partners/donor organizations, unions, customers, media, and MBA students</p>	Chambers of commerce MNCs with CSR experience Development partners with CSR advocacy experience such as UNDP, World Bank/IFC, UNGC
2.	<b>Financial barriers</b> <ul style="list-style-type: none"> <li>▪ High cost of certifications</li> <li>▪ CSR perceived as a cost</li> <li>▪ Return on investment not clear</li> </ul>	<b>Low</b>	Awareness building, sharing best practices and case studies, subsidies for certifications, tax incentives/credits for certain initiatives which meet national goals or MDGs.	Chambers of commerce, respective ministries, development partners.
3.	<b>Regulatory and institutional barriers</b> <ul style="list-style-type: none"> <li>▪ Lack of national level CSR framework</li> <li>▪ Lack of government involvement</li> <li>▪ Inadequate or no regulations/laws for minimum compliance: Environment, Corporate governance, Bankruptcy, Anti-money laundering, Anti-corruption, Anti-competition, IPR, Foreign investment, Forestry, Tourism, Organic farming /agriculture, Product Quality and Safety, Casino/Gambling, Labour.</li> <li>▪ Ineffective enforcement of laws</li> <li>▪ Lack of resources and expertise</li> <li>▪ Lack of transparency in extractives</li> </ul>	<b>Medium</b>	Awareness generation, integration workshops, multi-stakeholder forum, ongoing policy dialogue, supporting already ongoing regulatory and legislative reforms efforts of other development partners, assisting public sector in developing and optimizing public policies which influence CSR, promoting national standards, guidelines and certification schemes.	Respective ministries Chambers of commerce Development partners GPSF

	<ul style="list-style-type: none"> <li>▪ industries</li> <li>▪ Lack of tax incentives</li> </ul>			
<b>4</b>	<p><b>Business environment</b></p> <ul style="list-style-type: none"> <li>▪ Difficulties due to corruption</li> <li>▪ Fear of unfair competition</li> <li>▪ Compliance driven (garment)</li> <li>▪ Poor industrial relations (garment)</li> <li>▪ Fragmented tourism industry</li> <li>▪ Poor rural infrastructure</li> <li>▪ Low access to environmental technologies</li> <li>▪ Reliability of NGO partners</li> <li>▪ Sustainability of a project/difficulties in scaling up</li> </ul>	<b>Medium</b>	Capacity/awareness building, policy reforms for enabling regulatory environment, multi-stakeholder partnerships for pooling of resources and outreach, businesses make a pledge for ethical conduct by forming inter-association networks or by pledging to UNGC principles, recognition schemes/CSR awards, CSR communication/CSR reporting and CSR rating.	Respective ministries Chambers of commerce Development partners

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