Sustainable Progress? A Critical Look at Sustainability Reporting in Cambodia's Business Sector

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The Role and Importance of Sustainability Reporting

Sustainability reporting has become a vital component of corporate accountability in today's business environment. It enables organizations to showcase their commitment to economic, social, and environmental responsibilities, extending beyond mere financial performance. These reports provide comprehensive insights into the economic, environmental, and social impacts of an organization's operations (GRI, n.d.). This transparency empowers organizations to enhance their performance in various ESG (Environmental, Social, and Governance) areas, identify areas for improvement, and make informed decisions to boost their sustainability efforts (GRI, 2020).

According to the GRI (2020), sustainability reporting helps organizations build and maintain trust with stakeholders by demonstrating accountability and fostering long-term relationships. It also enables organizations to proactively address sustainability-related risks and opportunities, mitigating negative impacts while uncovering new avenues for innovation and growth. Moreover, sustainability reporting aligns organizations with the United Nations Sustainable Development Goals, ensuring they contribute to critical issues like poverty reduction, climate action, and social justice. As the landscape of sustainability reporting evolves, with a growing trend towards mandatory and regulated reporting, policymakers are increasingly recognizing its role in driving sustainable development.

The Current State of Sustainability Reporting in Cambodia

Recent research has explored the state of sustainability reporting in Cambodia, highlighting both progress and challenges. Miethlich (2019) emphasized the crucial role of collaboration between the government and businesses in promoting sustainable development in Cambodia. The study underscored the growing importance of sustainability reporting as a tool for corporate social responsibility communication and gaining a competitive edge. Although Cambodia's sustainability reporting lags behind other ASEAN nations, it stands out when considering GDP based on purchasing power parity.

Building on this, Ma'aji et al. (2022) examined the evolution of sustainability reporting practices in Cambodia. The study revealed that while many participants understood the importance of sustainability reporting, only a small fraction of companies disclosed their environmental and social impacts. Contributing factors included the lack of regulatory requirements, limited incentives, and a lack of awareness about the strategic benefits. The study called for a deeper investigation into the factors influencing the disclosure of environmental and social activities in sustainability reports.

To further examine sustainability reporting practices in Cambodia, I analyzed the 2022 sustainability reports of two prominent Cambodian companies: NagaCorp Ltd. (NagaWorld) and Smart Axiata Co., Ltd.[1] The reports showed both companies' commitment to sustainability. NagaWorld focused on reducing emissions, conserving resources, and enhancing employee well-being and governance practices. Smart Axiata prioritized economic growth and inclusivity, improving operational processes, and collaborating with various stakeholders. Both

1 This study is published in JAFESS, 8(1), 13 – 26. https://doi.org/10.62458/jafess.160224.8(1)13-26

companies adhered to established reporting frameworks and emphasized meeting standards, thereby enhancing the credibility and transparency of their sustainability reports.

I also took a closer look at NagaWorld's most recent sustainability report, covering the year ended December 31, 2023. The report reflects their commitment to following global best practices in ESG reporting. The company adopts the GRI Standards and reports their greenhouse gas (GHG) emissions according to the GHG Protocol. Acknowledging the increasing climate emergency and its potential impact on business, NagaWorld has taken proactive steps in 2023 to advance their environmental goals. These measures include establishing a Sustainability Governance Structure to integrate sustainability at all levels, from the Board to operational management. Additionally, they issued their first Taskforce on Climate-related Financial Disclosures (TCFD) report and adopted an Environmental Policy. NagaWorld has set ambitious 2030 environmental targets aligned with Cambodia's National Energy Efficiency Policy for commercial buildings. These targets include reducing grid electricity use by 25 percent from a 2018 baseline, cutting absolute Scope 1 and 2 carbon emissions by 10 percent, decreasing water usage by 10 percent from a 2019 baseline, ensuring 100 percent food waste diversion, and launching the inaugural 5Rs Campaign. This campaign engages staff in responsible waste management, waste circularity, and environmental solutions. Furthermore, NagaWorld is gradually phasing in biodegradable single-use plastics, such as food takeaway containers, bags, cutlery, and straws, to support their sustainability initiatives.

Challenges and Prospects

I recently conducted a study to explore the challenges and opportunities of sustainability reporting in Cambodia.[2] Through interviews and surveys with sustainability managers, practitioners, and experts, the study revealed significant insights and provided recommendations for enhancing sustainability reporting in the country.

A recurring theme was the lack of awareness and understanding of sustainability reporting among Cambodian organizations. This knowledge gap is a critical challenge that needs addressing. To overcome it, the study suggests implementing training programs, workshops, and campaigns to raise awareness. Additionally, providing clear guidance and resources is essential to help organizations understand the standards and implications of sustainability reporting.

Another major challenge is the absence of a unified sustainability reporting standard in Cambodia. The existence of multiple standards creates confusion and consumes excessive time and effort. To address this, respondents recommend developing clear guidelines and frameworks for sustainability reporting. These should incorporate both financial and impact materiality to offer a comprehensive view of organizational impacts. Utilizing multiple standards and frameworks, such as ISSB Standards, GRI Standards, and European Sustainability Reporting Standards, can enhance reporting accuracy and uniformity.

Capacity building and collaboration are also emphasized as crucial strategies. Building capacity through training programs and engaging stakeholders can effectively overcome challenges and improve sustainability reporting practices. Cross-sector collaboration and knowledge-sharing are seen as indispensable for driving sustainability reporting efforts in Cambodia. Organizations can benefit from the experiences and best practices of others through such collaborative initiatives.

The potential for technology to improve sustainability reporting processes is recognized, with streamlined data collection and analysis highlighted as key benefits. However, challenges related to data management and integration are acknowledged, underscoring the need for a strong foundation in sustainability practices before implementing technology-driven improvements.

Encouraging Small-Medium Enterprises (SMEs) to engage in sustainability reporting is another shared goal. Strategies to achieve this include raising awareness among SMEs, providing resources and guidelines, offering financial incentives, and establishing recognition programs. These strategies aim to support SMEs in adopting sustainability reporting practices and promoting their active participation in the sustainability agenda.

2 This study is published in JAFESS, 8(2), 11 – 22. https://doi.org/10.62458/jafess.160224.8(2)11-22

Regulatory Developments

The Accounting and Auditing Regulator of Cambodia (ACAR) has drafted a roadmap for implementing sustainability reporting in the country and is now forming working groups to oversee the process.

The current draft of the implementation roadmap outlines the enforcement of ESG disclosure requirements for Cambodian companies, which will be implemented in three stages. The first stage involves the issuance of a Prakas on ESG Disclosures, which will serve as the baseline for sustainability reporting in Cambodia. This will be followed by the introduction of IFRS Sustainability Reporting Standards with transition relief, and then IFRS Sustainability Standards with no transition relief, indicating a gradual increase in the stringency of the reporting requirements. Additionally, a review will be conducted in 2027 to assess the need for introducing simplified ESG disclosure requirements for micro entities.

The roadmap also includes a Pilot Testing and Feedback phase, where a diverse group of reporting entities will be involved in testing the practical challenges and refining the reporting framework based on real-world feedback. This feedback will then be used to make refinements to the reporting requirements. Furthermore, a 'regular discussion forum' with the first adopters will be organized, ensuring ongoing dialogue and stakeholder engagement to ensure the practicality and effectiveness of the sustainability reporting framework in Cambodia.

Conclusions and Recommendations

Sustainability reporting in Cambodia's business sector is still in its early stages and faces challenges due to a lack of awareness and understanding among organizations. The absence of a unified sustainability reporting standard has led to confusion and inefficiency, as companies must navigate different reporting frameworks. To enhance sustainability reporting practices in Cambodia, strategies such as capacity building, cross-sector collaboration, and knowledge-sharing are crucial.

While technology holds promise for improving sustainability reporting processes, its effective implementation requires a solid foundation in sustainability practices. Encouraging SMEs to participate in sustainability reporting is a common objective, but targeted interventions and support are essential for achieving this goal. Leading Cambodian companies like NagaWorld and Smart Axiata have shown a strong commitment to sustainability reporting, but there is still unevenness in the overall sustainability reporting landscape that requires further development.

The development of a clear regulatory roadmap by the ACAR, including the introduction of ESG reporting guidelines and the adoption of IFRS Sustainability Reporting Standards, presents a promising step forward.

I would like to offer the following recommendations:

1. Develop a national sustainability reporting framework that incorporates various standards (e.g., ISSB, GRI, European Sustainability Reporting Standards) to offer clear guidance and foster consistency in reporting.
2. Implement comprehensive awareness-raising campaigns, training programs, and resource development to improve the understanding and adoption of sustainability reporting among Cambodian companies.
3. Establish a national sustainability reporting platform or database to facilitate knowledge-sharing, collaboration, and the dissemination of best practices among businesses.
4. Provide financial incentives, recognition programs, and targeted support to encourage SMEs to participate in sustainability reporting and contribute to the country's sustainable development agenda.
5. Invest in building the technical and managerial capacity of organizations to effectively integrate sustainability practices and utilize technology to enhance their reporting processes.
6. Foster greater collaboration and engagement between the private sector, government, civil society, and academic institutions to drive the sustainability agenda forward and enhance the quality and transparency of sustainability reporting in Cambodia.