



**STUDY REPORT ON**

**THE IMPLEMENTATION OF ENVIRONMENTAL, SOCIAL  
AND GOVERNANCE (ESG) PRINCIPLES IN THE  
GARMENT INDUSTRY IN CAMBODIA: A RAPID  
ASSESSMENT**

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This research study was commissioned by Transparency International Cambodia, a member of the Fair Finance Cambodia (FFC) Coalition.

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## LIST OF ACRONYMS

ABC	Association of Banks in Cambodia
AC	Arbitration Council
ADB	Asian Development Bank
ANZ	Australia and New Zealand
APHEDA	Australian People for Health, Education and Development Abroad
ASEAN	Association of Southeast Asian Nations
BFC	Better Factories Cambodia
CATU	Cambodian Alliance of Trade Unions
C.CAWDU	Coalition of Cambodian Apparel Workers Democratic Union
CCHR	Cambodian Center for Human Rights
CENTRAL	Center for Alliance of Labour and Human Rights
CFITU	Cambodian Federation of Independent Trade Union
CMT	Cut-Make-Trim
CSO	Civil Society Organization
CSR	Corporate Sustainability Report
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure CFRS
DP	Development Partner
EGSEE	Economic, Governance, Social, Ethical, and Environmental
ESG	Environmental, Social, and Governance
EU	European Union
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
GMAC	Garment Manufacturers Association in Cambodia
GTF	Garment, Textiles and Footwear
HKTDC	Hong Kong Trade Development Council
H&M	Hennes & Mauritz
ILO	International Labour Organization
INGO	International Non-Government Organization
KI	Key Informant
KIIs	Key Informant Interviews
LAC	Labour Advisory Committee
LEED	Leadership in Energy and Environmental Design
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
MoLVT	Ministry of Labour and Vocational Training
MSCI	Morgan Stanley Capital International
MoWA	Ministry of Women's Affairs
NBC	National Bank of Cambodia
NGO	Non-Government Organization
NSSF	National Social Security Fund
NUM	National University of Management
OSH	Occupational Safety and Health
PRI	Principles for Responsible Investment
PwC	PricewaterhouseCoopers

RGC	Royal Government of Cambodia
SAC	Sustainable Apparel Coalition
SCP	Sustainable Consumption and Production
SDC	Swiss Agency for Development and Cooperation
SRI	Socially Responsible Investment
TI	Transparency International
TIC	Transparency International Cambodia
UN	United Nations
UNEP FI	United Nations Environment Programme Finance Initiative
UNGP	UN Guiding Principles on Business and Human Rights
USA	United States of America
USAID	United States Agency for International Development
WARP	Worldwide Responsible Accredited Production

## **EXECUTIVE SUMMARY**

This study analysed the implementation of ESG principles in the garment industry in Cambodia. Through its findings, the study aimed to suggest policy options and specific action plans for effectively implementing the ESG principles in the garment industry in Cambodia.

The study was conducted in Phnom Penh between August 2021 and February 2022. The interviews targeted key informants (KIs) from several categories such as concerned ministries (Ministry of Labour and Vocational Training [MoLVT]; Ministry of Women's Affairs [MoWA]), a UN agency (Better Factories Cambodia), international buyers, Association of Banks in Cambodia (ABC), trade unions, garment factories, international NGOs, development partners, and academics. Additionally, Focus Group Discussions (FDGs) were used to elicit the opinions of garment workers.

### **SUMMARY OF KEY FINDINGS**

The findings of this study show that garment factories possess varying levels of knowledge about ESG principles. Despite their commitment to doing so, garment factories face economic challenges in implementing ESG principles.

The study also revealed that international buyers consider adherence to Cambodian labour laws as the fundamental starting point and anticipate their business partners to adhere to the essential requirements. However, the study also demonstrated that trade unions perceived a lack of commitment among garment factories to implementing the ESG principles. The concern lies with the degree to which the sub-contractors or non-exporting small-sized factories implement the ESG principles in their factories.

Findings from the study reveal that there are lapses in ensuring workers' rights. Small factories that subcontract to larger export-oriented factories hire workers on a casual basis. Also, there are problems involving offering short-term contracts to workers, preventing workers from carrying out union activities, compelling the workers to work overtime, and terminating the contract of workers abruptly by some factories. Despite legislative protections for workers' rights, gaps exist between policy and practice.

The study also found several policy gaps in promoting workers' rights in the garment industry in Cambodia. For instance, the current Trade Union Law, through complicated requirements, has posed severe obstacles to forming union formation by workers. The denial of legal personality before registration impacts unions' ability to appeal against denial of registration and violates international norms, requiring a system of notification rather than permission to register a union. The statute also stipulates that labour union officials must be literate and have a clean criminal record.



## KEY RECOMMENDATIONS

On the basis of these findings, this comprehensive ESG study considers the following recommendations as crucial:

- For Government:
  1. The government should make necessary reforms in the Trade Union Law to simplify the registration process of the unions.
  2. The limiting conditions imposed upon the applicant unions having no legal personality and status should be removed to facilitate them to appeal against denial of registration and enable them to operate before and during the registration process.
  3. The government should make necessary changes so that union leaders will be exempted from providing family background information. Also, the requirement for union leaders to be literate and have no conviction of a criminal offence should be removed.
  4. To enable the trade unions to operate smoothly, the provision of a penalty of suspension, fine or dissolution for failure to meet the reporting requirements should be based on either international or regional standards for trade unions.
  5. The government should ensure that the trade union law adopted fully respects international standards. In the future, the drafting process must be transparent and should include consultation with independent labour unions and labour rights advocates.
  6. To ensure the effectiveness of labour inspection, attention should be given to repeated use of fixed-term contracts; forced overtime and retaliatory measures for refusing overtime; complaints about working conditions for pregnant workers, including discrimination in hiring, contract renewals, promotions; denial of sick leave and disproportionate deduction of attendance bonuses; and complaints of discrimination against union leaders and newly formed unions.
  7. To improve the working conditions of workers and their wellbeing, it is necessary to strictly enforce occupational safety and health provisions in the sub-contracting factories. In this regard, the government authorities should conduct adequate monitoring and inspection.
  8. The government should consider strengthening the Arbitration Council. In this direction, restoring access to dispute resolution by the Arbitration Council by directing the MoLVT to resume referring cases brought by all unions to the Arbitration Council is required. Further, provisions should be made to allow workers to choose their own representative for dispute resolution and individual disputes to have access to the Arbitration Council. In addition, making all Arbitration Council decisions binding will have a greater impact on resolving industrial disputes.
  9. Recognizing the requirement and relevance of work free from violence and harassment, including gender-based violence and harassment, the ILO's Violence and Harassment Convention, 2019 (No. 190) should be ratified by the government.
  10. To reduce waste and ensure a green and inclusive garment sector in Cambodia, the Ministry of Environment should provide training to garment factories focusing on practical ways of waste and wastewater management. Further, the ministry should ensure the support of stakeholders in identifying the gaps in its policies, exploring opportunities

toward initiating reforms and enforcing its policies on enhancing Sustainable Consumption and Production (SCP) in the Garment Industry in Cambodia.

- For International Buyers:

1. To prevent the abuse of workers' rights and in the interest of the workers and broader society, international buyers should disclose the names of their suppliers and sub-contractors.
2. International buyers should create a whistle-blower protection system for workers and union representatives who inform them about the unauthorized sub-contracting.
3. International buyers should ensure that all factories that have subcontracted work without authorization are reported to BFC for monitoring and advisory services.
4. International buyers should honour the purchase order, as any partial or full cancellation directly affects the workers.

- For Financial Institutions:

1. The financial institutions should engage in ESG due diligence before issuing loans to any garment factory. Also, the institutions should thoroughly scrutinise the factories' activities to ensure that no human rights violations are reported. It is equally essential for financial institutions to conduct supply chain mapping to identify the greatest risks, investigate compliance with local laws, and, where possible, remediate violations.

- For Garment Factories:

1. The garment factories should comply with local labour laws and standards by themselves by claiming more ownership.
2. The garment factories should be restrained from union-busting activity. Practices such as keeping long-term workers on short-term contracts to discourage their participation in union activities, shortening the length of male workers' contracts, dismissing or harassing newly elected union representatives to prevent the formation of independent unions, and encouraging pro-management unions, etc., should be discouraged.
3. To prevent abuse of workers' rights, especially women's rights, the sub-contract firms should stop using casual hiring arrangements and issuing repeated short-term contracts.

- For Garment Manufacturers Association in Cambodia:

1. GMAC should urge garment factories to prohibit discriminatory action against workers, such as disciplining or dismissing workers based on sick leave, pregnancy or union membership, etc.
2. GMAC should actively support awareness programs in member factories against sexual harassment and other forms of harassment in the workplace.

3. GMAC should negotiate with international buyers to disclose the names of their member factories as being the suppliers to global brands.
  4. GMAC should ensure that any of their member factories that have subcontracted work should report these instances to the BFC for monitoring and advisory services.
  5. GMAC should pressure international buyers to honour their purchase orders in the interest of the workers.
  6. GMAC should negotiate with the financial institutions toward engaging in ESG due diligence before issuing loans to any of their member factories.
- For Trade Unions and Non-Government Organizations (NGOs):
    1. Trade unions/NGOs should sensitise workers about specific gender-related workplace concerns, including sexual harassment at the workplace.
    2. Trade unions should encourage home-based garment workers to join unions and represent in collective bargaining.
  - For Better Factories Cambodia (BFC):
    1. BFC should consider disseminating information from the Transparency Database Critical Issues Factories' List to unions and workers in accessible and appropriate formats.

In addition, the recently introduced Cambodia GFT Development Strategy 2022 – 2027 has provided several strategic measures to transform the industry into an environmentally sustainable, resilient, and high-value-added sector with a decent workplace for workers to ensure their welfare.

In light of the ESG study, international buyers and financial institutions should play an essential role in ensuring a green and inclusive garment sector in Cambodia with the support of the government, investors, workers, trade unions, development partners and other stakeholders. More importantly, the workers in garment factories need sufficient protection to prevent the abuse of their rights. They must be treated with human dignity and respect. Effective implementation of the ESG principles by garment factories is highly required.

# I. INTRODUCTION

## I.1. Background

Environmental, social, and governance (ESG) principles examine the dedication of companies and countries to attain sustainability. The ESG analysis provides valuable insights to the diversified stakeholders of companies as they expect and demand sustainable and socially responsible practices. The *Global Commission on the Future of Work* of the International Labour Organization (ILO) emphasises the need to create market-based incentives to encourage business activities to align with the ILO's human-centred agenda and the goal of Socially Responsible Investment (SRI) is for investors to choose securities not only based on purely financial criteria but also per social, environmental, and ethical requirements (ILO, 2019).<sup>1</sup> Although there has been considerable growth in the number of companies documenting and reporting ESG data, including a rapidly growing investor interest in ESG data, a substantial knowledge gap exists between ESG information and supply. This gap in information sharing hampers the efforts of the companies to offer higher-quality data to investors.

In the Cambodian context, the garment sector is the main engine to boost the country's economic growth. At the end of 2019, there were 823 factories involved in producing garments and textiles, 114 factories produced travel goods, and 132 factories produced footwear (Phnom Penh Post, April 13, 2020).<sup>2</sup> Cambodia's garment and footwear manufacturing sector continues to be a major employer for Cambodia's labour force, employing over 700,000 workers with an export value of more than US\$7 billion in 2019 (Garment Manufacturing Association in Cambodia [GMAC], 2020).<sup>3</sup> However, the annual exports of clothing decreased by 10.24%, footwear by 11.69%, and travel goods by 10.58% in 2020 due to the COVID-19 epidemic and the resulting decline in worldwide demand (Phnom Penh Post, July 13, 2021).<sup>4</sup> As a critical sector essential to the country's economy, it is pertinent to ensure labour rights (along with women's rights) and appropriate working conditions, including compliance to maintaining productive, decent, and sustainable jobs in the garment sector for the Cambodian labour force.

In addition to the existing policies and legal frameworks in place to protect worker's rights, including women's rights, the Royal Government of Cambodia (RGC) has shown its commitment to ensuring payment of the minimum wage for the workers of the garment, textiles, and footwear (GTF) industries. Referring to the survey conducted by the BFC in 2017 and 2018, Lindsay (2019) points out that "*compliance had improved for international laws around overtime wages, discriminations against employees, child labour, routine evacuation drills, and reprisals for union membership.*" In spite of these improvements, violations of international law in over half of Cambodia's registered

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<sup>1</sup> ILO (2019). Socially Responsible Investment and Decent work.  
[https://www.ilo.org/global/research/events-courses/WCMS\\_728353/lang--en/index.htm](https://www.ilo.org/global/research/events-courses/WCMS_728353/lang--en/index.htm)

<sup>2</sup> The Phnom Penh Post, April 13, 2020. Honor contracts: Appeal to garments buyer.  
<https://www.phnompenhpost.com/business/honour-contracts-appeal-garment-buyers>

<sup>3</sup> Garment Manufacturers Association in Cambodia (2020). GMAC Bulletin 2020.

<sup>4</sup> The Phnom Penh Post, July 13, 2021. Committee to give garment workers a boost.  
<https://www.phnompenhpost.com/business/committee-give-garment-workers-boost>

factories, including instances concerning workers' health and gender-based discrimination, were revealed (Lindsay, 2019). Moreover, while the presence of strong employers' association with considerable influence in national politics is felt, the polarized labour and economic politics in Cambodia involves sharp divisions and mistrust among stakeholders. Due to domineering labour politics, the government seeks to control the political narrative and labour practices by repressing civil liberties, particularly freedom of association (Jackson et al., 2021).

Against this backdrop, for the wider social benefits, assessing the implementation of the ESG principles in the garment industries assume significance, leading to this evidence-based research. Thus, in light of the above rationale, the study on the implementation of ESG principles in the garment sector was undertaken under the guidance of the Transparency International Cambodia team.

## **I.2. Objectives of the Study**

The overall objective of the study is to assess the implementation of ESG principles in the garment industry in Cambodia. Specifically, the study intends to:

1. Review the implementation of the ESG principles in the garment industry in Cambodia with an emphasis on workers' and women's rights.
2. Identify and elaborate on relevant problems of integrating the ESG principles in the garment sector that need further research.
3. Explore the policy options in light of the problems of the ESG principles integration in the garment sector.
4. Provide recommendations to the financial institutions for reforms on internal protection policy and compliance to eliminate the negative impacts on workers' rights.

## **I.3. Study Questions**

The implementation of the ESG principles study seeks to answer the following main research questions:

1. What are the priorities of the ESG principles integration in the garment sector in Cambodia?
2. How actively is the government engaged in promoting workers' and women's rights in the garment sector in Cambodia?
3. What are the mechanisms to prevent the abuse of workers' rights in the garment sector?
4. What are the policy gaps in promoting ESG principles and workers' rights in the garment industry?
5. What proportion of garment factories is aware of ESG principles and have implemented them?
6. What are the main benefits of implementing ESG principles in garment factories?
7. How is protecting workers' rights, particularly women's rights, important for garment factories from a social governance perspective?
8. How did the garment factories comply with the existing government's policies and regulations?
9. What are the top ten countries currently investing in the garment industry in Cambodia, and what are their primary sources of capital?
10. What are the obligations of international buyers to ensure the compliance of workers' rights?
11. What should financial institutions do to reduce the negative impacts on workers' rights in the garment industry?

12. What are the obligations of the financial regulators to enforce and enhance workers' rights in the Cambodian garment industry?
13. What are the challenges of the ESG principles implementation and promotion of workers' rights in the garment sector in Cambodia?

#### **I.4. Scope of the Study**

Within the given timeframe and budget, the scope of the implementation of the ESG principles study involved conducting a desk review and field survey to collect primary data from a diversified group of key informants. These included:

- The concerned ministries (MoLVT; MoWA)
- A United Nations (UN) agency (International Labour Organization – Better Factories Cambodia)
- Association of Banks in Cambodia
- Garment factories
- Trade unions
- Development partners (DPs)
- Non-government organizations
- Academics
- The international buyers.

In addition to the key informant interviews, focus group discussions among the workers of four garment factories were conducted to gather their opinions on several aspects of this study. This evidence-based research report has been prepared based on the review of the relevant documents, including primary data collected from KIIs and FGDs.

#### **I.5. Organization of the Report**

This ESG study report consists of five sections, organized as follows:

- Section 2 presents an extensive review of literature relating to the implementation of the ESG principles both from conceptual and empirical angles
- Section 3 describes the methodology used in the study
- Section 4 presents the findings of the study broken out into four subsections:
  - i. implementation of ESG principles in the garment industry in Cambodia
  - ii. policies and legal frameworks of workers' rights in the garment sector
  - iii. financial flows focusing on capital flows in the garment industry
  - iv. financial institutions' obligations to reduce the negative impacts on workers' rights
- Section 5 discusses the study's main findings and presents its conclusions and recommendations. The report is appended with the research instruments used in the study.

## 2. LITERATURE REVIEW

### 2.1. Overview of ESG Principles

According to the Investopedia Team definition (2022), “*environmental, social, and governance criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investment.*”<sup>5</sup> The traditional shareholder-oriented view that focuses mainly on maximizing shareholders' financial return has changed drastically. Companies have started to adopt stakeholder-oriented strategies to maximize social value. More recently, more companies have begun to realize that their future landscape can only be achieved by paying due attention to their sustainability strategies. As such, they intend to disclose ESG information, which includes several dimensions related to the environment, society, and governance (Alsayegh et al., 2020).

The concept of ESG is used in different contexts, and its reporting has been expressed in various interchangeable terms, including *non-financial reporting*; *Corporate Sustainability Report (CSR)*; *Corporate Social Responsibility Disclosure (CSRD)*; *Economic, Governance, Social, Ethical, and Environmental (EGSEE)* report (Hahn & Kuhnen, 2013; Rezaee 2016; Jain et al., 2016).

Reliable and consistent ESG information is relevant to investors for assessing corporate behaviour and ensuring companies' sustainability concerning their investment decisions. Environmental disclosure includes the measures of a company’s emissions, waste, pollution, the climate change risks it faces, and its ecological and natural resource conservation. Social dimensions include supply chain management, community investment, labour and human rights policies, and their health and safety policies' effectiveness in protecting against accidents (Alsayegh et al., 2020). Governance refers to the company's internal system of practices, controls, and procedures for governing itself, making effective decisions, complying with laws and regulations, and meeting the needs of external stakeholders (Henisz et al., 2019). Companies must have an effective system of corporate governance (such as board structure, auditing procedures, ethical principles, and shareholders' rights) in place. On this basis, a robust structure combining the three ESG dimensions is created to strengthen management practices in monitoring and enhancing sustainable corporate performance. *Table 2.1* shows the ESG themes and ESG key issues for each ESG element as provided by the Morgan Stanley Capital International (MSCI) ESG research, 2022.

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<sup>5</sup> The Investopedia Team, February 23, 2022. Environmental, social and governance (ESG) criteria. <https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>

**Table 2.1: ESG Themes and Key Issues for Each Element**

<b>3 Pillars</b>	<b>10 Themes</b>	<b>35 ESG Key Issues</b>
Environment	Climate change	<ul style="list-style-type: none"> <li>• Carbon emissions</li> <li>• Product carbon footprint</li> <li>• Financing environmental impact</li> <li>• Climate change vulnerability</li> </ul>
	Natural capital	<ul style="list-style-type: none"> <li>• Water stress</li> <li>• Biodiversity and land use</li> <li>• Raw material sourcing</li> </ul>
	Pollution and waste	<ul style="list-style-type: none"> <li>• Toxic emissions and waste</li> <li>• Packaging material and waste</li> <li>• Electronic waste</li> </ul>
	Environmental opportunities	<ul style="list-style-type: none"> <li>• Clean tech</li> <li>• Green building</li> <li>• Renewable energy</li> </ul>
Social	Human capital	<ul style="list-style-type: none"> <li>• Labour management</li> <li>• Health and safety</li> <li>• Human capital development</li> <li>• Supply chain labour standards</li> </ul>
	Product liability	<ul style="list-style-type: none"> <li>• Product safety and quality</li> <li>• Chemical safety</li> <li>• Financial product safety</li> <li>• Privacy and data security</li> <li>• Responsible investment</li> <li>• Insuring health and demographic risk</li> </ul>
	Stakeholder opposition	<ul style="list-style-type: none"> <li>• Controversial sourcing</li> <li>• Community relations</li> </ul>
	Social opportunities	<ul style="list-style-type: none"> <li>• Access to communications</li> <li>• Access to finance</li> <li>• Access to healthcare</li> <li>• Opportunities in nutrition and health</li> </ul>
Governance	Corporate governance	<ul style="list-style-type: none"> <li>• Board</li> <li>• Pay</li> <li>• Ownership</li> <li>• Accounting</li> </ul>



	Corporate behaviour	<ul style="list-style-type: none"> <li>• Business ethics</li> <li>• Tax transparency</li> </ul>
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Source: MSCI ESG Ratings Key Issue Framework, 2022.<sup>6</sup>

Based on the United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact, the Principles for Responsible Investment (PRI) was established in 2006 to encourage financial institutions to integrate ESG factors into the decision-making process to achieve the 2030 Agenda for Sustainable Development and Paris Agreement on Climate Change.<sup>7</sup>

The six Principles of Responsible Investment are:<sup>8</sup>

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles.

The six Principles for Responsible Investment offer possible actions for incorporating ESG issues into investment practice. Several studies provide evidence that investors are currently incorporating sustainability data into their investment decision processes (Kim et al., 2012; Khan et al., 2016).

Socially responsible investing (SRI) is an investment strategy that seeks to consider two components: a) financial return for protecting shareholders’ value; and b) nonfinancial returns (social/environment) for protecting the interests of other stakeholders.

Thus, ESG reporting intends to communicate to the community that the organization is not gearing its business towards the pursuit of pure profit at the expense of fulfilling its obligations to its employees, customers, the environment, and society at large (Rahman & Alsayegh, 2021).

**2.2. Benefits of Implementing ESG Principles**

Extensive research on the implementation of ESG principles by companies shows that the benefits associated with integrating sustainability into a company’s business strategy and practices and improving the sustainability reporting include an increase in transparency, improved reputation and legitimacy, enhanced brand value, increased employee and customer loyalty, reduced costs, better business practices, improved firm performance and valuation, and competitive advantage generation (Loannou & Serafeim, 2017; Sanchez-Planelles et al., 2021). Companies that engage in

<sup>6</sup> MSCI, 2022. ESG Ratings Key Issue Framework. <https://www.msci.com/our-solutions/esg-investing/esg-ratings/esg-ratings-key-issue-framework>

<sup>7</sup> UNEP FI. <https://www.unepfi.org/about/>

<sup>8</sup> PRI. <https://www.unpri.org/about-us/about-the-pri>

effective and transparent reporting can better understand the issues that matter most to their stakeholders leading to a virtuous cycle of positive contribution and improved performance.

Under the increasing pressure of social media and the attention of stakeholders, ESG disclosure provides potential businesses with benefits that may include transparency enhancement, employee motivation, and improved reputation and brand value, hence avoiding the market stigma associated with a reputation for environmental recklessness (Brammer & Pavelin, 2008; Hahn & Kuhnen, 2013). *Table 2.2* outlines the internal and external benefits of ESG reporting according to PricewaterhouseCoopers (PwC).

**Table 2.2: Internal and External Benefits of ESG Reporting**

Internal Benefits	External Benefits
<ul style="list-style-type: none"> <li>• Improved understanding of risks and opportunities</li> <li>• Highlighting the link between financial and non-financial performance</li> <li>• Influencing long-term management strategy and policy, as well as business plans</li> <li>• Streamlining processes, lowering costs, and increasing efficiency</li> <li>• Benchmarking and assessing ESG performance in relation to laws, norms, codes, performance standards, and voluntary initiatives</li> <li>• Avoiding being implicated in widely publicized environmental, social, and governance failures</li> <li>• Comparing performance internally, as well as between organizations and sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Improving reputation, brand awareness, and loyalty</li> <li>• Receiving feedback on the programs and activities reported on in the previous period through the report</li> <li>• Mitigating negative ESG impacts and providing opportunities for external stakeholders to understand the actual value of the company</li> <li>• Demonstrating how the company influences and is influenced by expectations about sustainable development</li> <li>• Monitoring the values and trends of non-financial indicators to get a sense of a company's future performance</li> <li>• By getting ideas for articles in the report and by broadening the topics, journalists can often promote the company's reputation</li> <li>• Incorporating ESG factors into the methodology by credit rating agencies</li> </ul>

Source: ESG Reporting, PwC.<sup>9</sup>

Thus, relevance to investment performance is the most frequent motivation for using ESG data, followed by client demand and product strategy, bringing change to companies, and ethical considerations.

<sup>9</sup> pwc. <https://www.pwc.com/sk/en/environmental-social-and-corporate-governance-esg/esg-reporting.html>

### 2.3. Policies and Legal Frameworks to Protect Workers' Rights in Cambodia

In the context of Cambodia, as per the Cambodian Labour Law (1997), provisions are placed to protect workers' rights (including women's rights). These provisions can be referred to as follows:

- *Article 12* prohibits discrimination based on race, colour, sex, creed, religion, political opinion, birth, social origin, union membership of workers' union or the exercise of union activities when making professional decisions such as hiring, defining and assigning work, vocational training, advancement, promotion, remuneration, granting of social benefits, discipline or termination of employment contract
- *Article 15*: Forced or compulsory labour is absolutely forbidden in conformity with the International Convention No. 29 on forced or compulsory labour, adopted on June 28, 1930, by the International Labor Organization and ratified by the Kingdom of Cambodia on February 24, 1969
- *Article 104*: Wage must be at least equal to the guaranteed minimum wage; that is, it must ensure every worker of a decent standard of living compatible with human dignity
- *Article 106*: For work of equal conditions, professional skill and output, the wage shall be equal for all workers subject to this law, regardless of their origin, sex or age
- *Article 137*: The number of hours worked by workers of either sex cannot exceed eight hours per day or 48 hours per week
- *Article 139*: If workers are required to work overtime for exceptional and urgent jobs, the overtime hours shall be paid at a rate of fifty per cent higher than regular hours. If the overtime hours are worked at night or during weekly time off, the rate of the increase shall be one hundred per cent
- *Article 146*: Prohibits using the same worker for more than six days per week
- *Article 166*: All workers are entitled to paid annual leave to be given by the employer at the rate of one and a half work days of paid leave per month of continuous service
- *Article 177*: Establishes a minimum working age of 15 years old (although it can be lowered to 12 years old and increased to 18 years old depending on the nature of the work)
- *Article 229*: All establishments and work places must always be kept clean and must maintain standards of hygiene and sanitation or generally must maintain the working conditions necessary for the health of the workers
- *Article 230*: All establishments and work places must be set up to guarantee the safety of workers. Machinery, mechanisms, transmission apparatus, tools, equipment and machines must be installed and maintained in the best possible safety conditions. Management of technical work utilizing tools, equipment, machines, or products used must be adequately organised to guarantee the safety of workers
- *Article 233*: Visits to establishments and inspections of the enforcement of the legislative provisions and regulations regarding health, working conditions, and safety shall be made by Labor Inspectors and Labor Controllers

Further, *Article 35* of the Constitution of Cambodia has made the provision that Khmer citizens of either sex shall have the right to participate actively in the political, economic, social and cultural life of the nation, and *Article 45* has stated that all forms of discrimination against women shall be abolished and the exploitation of women in employment is prohibited.

The International Labour Organization Governing Body has identified eight “*Fundamental Conventions*” covering subjects that are considered to be fundamental principles and rights at work<sup>10</sup>: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

These principles are also covered by the ILO Declaration on Fundamental Principles and Rights at Work (1998). The Royal Government of Cambodia has shown its commitment by ratifying all the fundamental conventions as follows:

- Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)
- Right to Organize and Collective Bargaining Convention, 1949 (No. 98)
- Forced Labour Convention, 1930 (No. 29) (and its 2014 Protocol)
- Abolition of Forced Labour Convention, 1957 (No. 105)
- Minimum Age Convention, 1973 (No. 138)
- Worst Forms of Child Labour Convention, 1999 (No. 182)
- Equal Remuneration Convention, 1951 (No. 100)
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

In addition, various mechanisms to prevent the abuse of workers' rights in the garment sector can be cited:

- Better Factories Cambodia Program initiative, managed by ILO and supported by the government to monitor the working conditions in garment factories. As BFC states, “*the programme engaged workers, employers and governments to improve working conditions and boost the competitiveness of the garment industry.*”<sup>11</sup>
- As stated by ILO, “*the General Department of Labour within the Ministry of Labour and Vocational Training is responsible for the enforcement of labour law, for improving and ensuring hygiene, health, security and good working conditions at the factories/enterprises, inspecting enterprises and to following-up on the labour law enforcement and provisions related to working conditions, occupational safety and health (OSH) and the general social welfare of workers/employees.*”<sup>12</sup>

The Royal Government’s commitment to promoting workers' rights, especially women's rights in the garment sector, has been evident. As per Article 357 of the Cambodian Labour Law 1997, the Labour Advisory Committee (LAC), consisting of representatives of the government, employers’ organizations and workers’ unions, leads the minimum wage discussion and recommends the minimum wage increment to the government. Furthermore, Article 107 guarantees a minimum wage and specifies that the elements to be considered in determining the minimum wage must include social and economic factors. The law establishes a scientific procedure for setting the minimum wage based on seven criteria: three social (family situation,

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<sup>10</sup><https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>

<sup>11</sup> <https://betterwork.org/where-we-work/cambodia/#>

<sup>12</sup> [https://www.ilo.org/labadmin/info/WCMS\\_209354/lang--en/index.htm](https://www.ilo.org/labadmin/info/WCMS_209354/lang--en/index.htm)

inflation rate and cost of living), and four economic (productivity, competitiveness of the country, labour market situation, and profitability of the sector). As seen, there has been a continuous increase in the monthly minimum wage for workers despite the present negative economic shock due to the COVID-19 pandemic., As per the *Prakas 264* dated September 28, 2021, from the beginning of 2022, regular workers in the GTF industries received a minimum wage of USD 194 per month, an increase from USD 192 in 2021. In addition to a minimum wage, workers are also entitled to an attendance bonus of USD 10 per month; transportation or accommodation compensation of USD 7 per month; food allowance of USD 0.50 per day (or one free meal per day); overtime and seniority bonus of USD 2 – USD 11 per month for those between their second to the eleventh year of work.<sup>13</sup>

There has been an improvement in complying with international laws concerning overtime wages, discrimination against employees, and the prevention of child labour. More importantly, in response to COVID-19, the government has created ten rounds of interventions to support workers in the garment sector in Cambodia. Included were the provision of a suspension allowance (USD 40 by the government and USD 30 by the employers paid to the workers due to suspension of their contracts), a skill improvement training program, and a cash transfer program for poor households. While the suspension allowance from the government is widely known and accessible to workers across all industries, those working in the GTF industries are more likely to avail of it from the employer (CPS, 2021). Additionally, during any period of business suspension, the requirement to make monthly contributions to the NSSF for occupational risk and healthcare schemes is waived.

## **2.4. Implementation of ESG Principles in the Garment Industry**

Research on ESG practices in the garment industry in Cambodia is quite limited. However, in the international context, companies or organisations have integrated ESG and reported positive impacts on their firms. For instance, through a literature review, Chowdhury et al. (2016) theoretically explored the effect of sustainable environmental practices on the financial performance of companies producing ready-made garments in Bangladesh. According to the authors, by incorporating four aspects of sustainability such as employees, community, environment and governance, companies can enhance revenue and profit. Similarly, in their exhaustive review, Friede et al. (2015) revealed that around 90 per cent of earlier studies showed a nonnegative ESG-corporate financial performance relation, and positive ESG impact on corporate financial performance remains stable over a period of time. In their case study, Dai et al. (2021) revealed that when JNBY deployed ESG or a sustainable development strategy throughout the company, ranging from product design and production, management (supply chain, customer, and employee) to social responsibility, their yearly income increased. Another study in the USA, which investigated the effect of ESG activities and their disclosure on the firm value, found that ESG strengths have positively impacted firm value. In contrast, ESG weaknesses negatively affect it (Fatemi et al., 2018).

In the context of Cambodia, it has been shown that the engagement of financial sectors could lead to promoting workers' rights. For instance, ANZ Bank has been listed as a financial institution that has imposed sustainability policies and employed ESG-related assessments even when making

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<sup>13</sup> <https://www.aseanbriefing.com/news/cambodia-to-increase-minimum-wage-for-2022/>

lending decisions.<sup>14</sup> According to ANZ's responsible business lending, "we seek to assess and manage the impacts of our lending decisions through the application of our Social and Environmental Risk Policy (the Policy) and accompanying 'sensitive sector' requirements which include the effect their (customers) operations on human rights, biodiversity, cultural heritage, indigenous rights, health and safety, governance and environmental sustainability."<sup>15</sup> However, engagement from different stakeholders, including buyers from garment factories, has not substantially promoted workers' rights. Regarding buyers' ESG practices, there have been concerns regarding buyers' demotion on decent working conditions/practices. This results from payment cancellation and delays from the buyers, even for the already manufactured items (MacDonald, 2021). Looking more closely at the governance aspect of ESG, there has been a lack of transparency (Deloitte, 2018) as e-governance has just emerged in Cambodia. Hence, this can be concluded that there seems to be a significant policy gap in promoting ESG principles holistically in the garment industry.

## **2.5. Gaps in Promoting Workers' Rights and Lack of Holistic Approach to ESG-Related Regulations**

Despite significant progress achieved by the Royal Government in advancing workers' rights, including women's rights in the apparel industry, evidence indicates that gaps still exist, impeding the RGC's efforts to provide justice to the employees.

Based on the BFC's 2017-18 survey, Lindsay (2019)<sup>16</sup> found that discrimination, forced labour violations, child labour violations, workplace conditions and hygiene-related issues altering workers' health have remained unsolved in Cambodia. Labour rights abuses like forced overtime and retaliation against those who sought exemption from overtime, lack of rest breaks, denial of sick leave, use of underage child labour, and the use of union-busting strategies to thwart independent unions, including pregnancy-based discrimination for women workers, sexual harassment, and denial of maternity benefits have also been reported (HRW, 2015).<sup>17</sup> Based on the BFC's survey (2020), ILO's research brief (2020) points out that in Cambodia, "only 20 per cent of workers reported that employers implemented social-distancing measures by reducing gatherings in canteen or break areas, 14 per cent of workers reported that employers disinfected work surfaces, and 12 per cent reported that employers had re-configured production areas to ensure social distancing. As such, one in two workers indicated that they were unable to maintain recommended social distance while at work and while commuting."<sup>18</sup>

At the policy level for the Cambodian garment sector, there seems to be no holistic approach to ESG-related regulations. Additionally, the implementation of related ESG principles in the garment industry has been evaluated by relevant agencies and ministries (ILO's BFC, MoLVT and MoWA). On the other hand, ESG principles in the financial sector have been assessed more

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<sup>14</sup> <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles+-+Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>

<sup>15</sup> <https://www.anz.com.au/about-us/esg-priorities/fair-responsible-banking/responsible-business-lending/>

<sup>16</sup> <https://humanrightsinasean.info/news/cambodian-garment-factories-improve-conditions-but-rights-violations-continue/>

<sup>17</sup> <https://www.hrw.org/news/2015/03/11/cambodia-labor-laws-fail-protect-garment-workers>

<sup>18</sup> [https://www.ilo.org/asia/publications/issue-briefs/WCMS\\_758626/lang--en/index.htm](https://www.ilo.org/asia/publications/issue-briefs/WCMS_758626/lang--en/index.htm)

holistically after being introduced in 2016 by the Association of Banks in Cambodia (ABC, 2016). There are nine principles to hold financial institutions accountable for sustainable finance.<sup>19</sup>

As the Cambodia Sustainable Finance principles and its implementation guidelines were recently launched in March 2019, there is a need for financial institutions to build up their capacity for ESG practices. In the launching ceremony of the Cambodia Sustainable Finance principles and its implementation guidelines, the chairman of the Association of Banks in Cambodia, however, was optimistic about a significant contribution by the banking sector to make a more sustainable and prosperous Cambodia by building people's awareness (OXFAM, Press release).<sup>20</sup> Thus, to summarize, although there have been regulations in place to promote workers' rights and mechanisms to prevent the abuse of workers' rights, the effort still has remained lacking.

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<sup>19</sup><https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles+-+Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>

<sup>20</sup><https://cambodia.oxfam.org/latest/press-release/press-release-financing-sustainable-future-cambodian-banks-come-together>

## **3. RESEARCH METHODOLOGY**

### **3.1. Sample Design**

As per the research plan, in the study on the implementation of the ESG principles, it was proposed to conduct interviews with key informants from several categories such as concerned ministries, UN agencies, international buyers, financial institutions, financial regulators, business associations, trade unions, garment factories, international NGOs, development partners, and academics. In addition, workers in garment industries were also considered as target participants in the study.

On the basis of purposive sampling, the study participants from each category were interviewed, except those who had either declined or preferred not to respond. In response to our request, a few organizations/institutions, such as the NBC, GMAC, Cambodian Federation of Employers and Business Associations (CAMFEBA) and East-West Management Institute (EWMI), and two international buyers, Nike and Adidas, declined to participate in the interview. The other key informants representing different organizations/institutions that participated in the study are shown in *Table 3.1*.



**Table 3.1: Key Informants from Different Categories Participated in the Interview**

Category	Number of entity/units	Organization/institution
UN agency	01	International Labor Organization – Better Factories Cambodia (BFC)
Government authorities	02	Ministry of Labor and Vocational Training (MoLVT)
		Ministry of Women’s Affairs (MoWA)
Business associations	01	Association of Banks in Cambodia (ABC)
International buyers	02	H&M
		GAP
Garment factories	05	Southland (Cambodia) Co., Ltd.
		Gladpeer Garments Factory (Cambodia) Ltd.
		Luentech Textiles Solutions Co., Ltd.
		T & K Garment Industry Co., Ltd.
		Suntex Pte. Ltd. (Cambodia)
Trade unions	03	Cambodian Federation of Independent Trade Union (CFITU)
		Cambodian Alliance of Trade Unions (CATU)
		Coalition of Cambodian Apparel Workers Democratic Union (CCAWDU)
International NGOs	05	OXFAM Cambodia
		Action Aid Cambodia
		Care International Cambodia
		Center for Alliance of Labor and Human Rights (CENTRAL)
		Union Aid Abroad APHEDA (Australian People for Health, Education and Development Abroad)
Development Partners and academics	03	Swiss Agency for Development and Cooperation (SDC)
		ECODIT (USAID -Green Future Activity)
		National University of Management (NUM)
Garment workers (FGDs)	4 FGDs	Different garment factories

Further, four FGDs were organized with a total participation of 17 workers from garment factories.

### 3.2 Questionnaire Design

For implementing the ESG principles study, questionnaires meant for the KIs were prepared along with the questions for FGDs. The questionnaires were designed by identifying topics to be addressed in the study: priorities of the ESG principles integration in the garment sector, government engagement in promoting workers’ rights and women’s rights in the garment sector, different mechanisms to prevent the abuse of workers’ rights in the garment sector, policy gaps to promote the ESG principles and workers’ rights in the garment industry, compliance of garment factories with the existing government’s policies and regulations, obligations of the

international buyers to ensure the compliance of workers' rights, the role of financial regulators as well as financial institutions to enforce and enhance workers' rights in the garment industry, challenges of the ESG principles implementation and promotion of workers' rights in the garment sector in Cambodia, etc. These topics were then clustered into the implementation of the ESG principles study with open-ended options. Questions were discussed and adjusted per the feedback and comments from Transparency International Cambodia (*Please see the Sample Questionnaire in Annex 1 and FGD questions in Annex – 2*).

Before finalising the questionnaires for field data collection through interviews, the study team and the Transparency International Cambodia team assessed them for language, understanding, and time requirements. As such, the draft questionnaires were approved by the Transparency International Cambodia team to proceed with interviews.

### **3.3. Data Collection**

**Desk Review:** The consultant reviewed relevant policies, legislations, guidelines, and related ESG documents, including several study reports on similar and/or relevant topics before the primary data collection. This helped broaden the current study's scope and provide further information for validation against other sources (*Please see the literature review in Section 2*).

**Key Informant Interviews (KIIs):** The KI interviews were semi-structured and covered the topics mentioned earlier. The consultant and local associate conducted these interviews virtually or face-to-face, depending on the informants' preference. Verbal consent was sought from the key informants before the interview was conducted. Each key informant interview typically took 90 minutes to complete. The period of interviews spanned from September 2021 – January 2022.

**Focus Group Discussions (FGDs):** The FGDs with workers of garment factories were conducted by a trained facilitator through face-to-face administration of open-ended questions after receiving their verbal consent. Due to the COVID-19 pandemic, standard sanitization and social distancing norms were followed during the conduct of the FGDs. In total, four FGDs were conducted with the participation of 17 workers. Each FGD typically took 90 minutes to complete. The period of FGDs spanned approximately three weeks between October - November 2021.

**Field Observation:** A careful field observation was carried out during the KIIs and FGDs. It captured the prevailing environment in the target areas as it pertained to the research topic. Important observations were made and noted to inform the research on the current working environment, including the cleanliness inside and pollution outside of the garment factories, the use of facemasks by workers and their maintenance of social distancing, the closure of several business units, markets, and restrictions on people's movement due to COVID-19.

### **3.4. Data Analysis and Reporting**

Data analysis in this study was primarily qualitative. The primary data obtained from the KIIs through interviews and workers of garment factories through FGDs were edited before being analysed. Open-ended responses were coded to arrive at clusters. A thematic approach was used to analyze the responses gathered from the KIIs and FGDs. Analysis was taken separately for target categories before it was undertaken for the overall group.

### **3.5 Ethical Considerations**

The study employed several ethical principles to ensure the privacy, safety, and security of the KIs and FGD participants in all phases. Before participation in the study, potential respondents were informed that they had no obligation to participate and would face no penalty if they chose not to participate. As such, their participation in the study was completely voluntary. Further, participants were informed that they were free to withdraw their participation at any time during the interview or group discussions. They were assured that there would be no pressure on participation, and accordingly, the study team was instructed to strictly ensure this during the interview and group discussion process. To ensure that the participants felt safe to answer honestly, the study team did not interview any respondents they knew previously. The information gathered would not be shared with any other organization except Transparency International Cambodia to protect the anonymity and confidentiality of the respondents. Although the study team will retain the database of all participants, the details will be deidentified. Finally, it was guaranteed that the data collected would be used solely for the current study and any further follow-up action.

### **3.6. Limitations of the Study**

The potential limitations of the study include response bias and recall bias. There are many reasons why respondents may provide socially desirable answers (less-than-truthful responses) or incorrectly recall details as events over a longer time interval are being asked about, including age, education, and socio-economic status. The study attempted to reduce this potential bias by providing respondents with clear information about the purpose of the study and why they were selected for the interview. Respondents were further assured that their responses would have no bearing on their participation in this project and that they would never be identified individually or by name in the study report.

During the data collection process, finding KIs as per their category proved challenging due to the prevailing COVID-19 pandemic. In addition, some KIs, particularly international buyers, business associations, and financial regulators, declined to participate in the interview. Furthermore, in many cases, the interview process was delayed by KIs rescheduling appointments.

The interviewed garment factories refused to reveal their funders other than to say that the finance came from abroad, making it difficult to trace the financial institutions from whom they had availed the credit. Without having the information in hand about the financial institutions, the study team faced the challenge of contacting the financial institutions to seek their opinions.

Similarly, the interviewed international buyers did not disclose their brand-producing factories in Cambodia. Detailed discussion about the international buyers could therefore not be made.

Lastly, it is crucial to remember that the interview plan had been changed frequently to online interviews in light of the COVID-19 situation and prevailing uncertainties of lockdown and self-isolation in many locations. This situation required replanning and delayed the process of interviews.

## **4 STUDY FINDINGS**

### **4.1. Implementation of ESG Principles in the Garment Industry in Cambodia**

This section describes how far ESG principles in the garment industry have been implemented in Cambodia. As such, the discussion will delve into the garment factories' level of knowledge about ESG principles, the extent to which ESG principles are implemented in the garment factories, the perceived benefits of implementing ESG principles, the importance of workers' rights from the perspective of social governance, the extent to which the garment factories have been supporting worker's rights, and the extent to which compliance with the existing government's policies and regulations. In order to analyse these issues, key informant opinions gathered through interviews and garment workers' perspectives gathered through FGDs are considered.

#### **Knowledge of the garment factories about ESG principles**

The garment factories possessed varying levels of knowledge about ESG principles. The key informants of international buyers such as H&M and Gap have felt that even though more than 70 per cent of the factories are aware of ESG principles, there is further scope for their management to understand these principles more deeply for effective implementation. While some trade unions believed that the Cambodian garment factories only had a limited understanding of ESG principles, others believed that almost all of the factories were aware of them, particularly those concerning preventing abuse, defending workers' rights, and maintaining transparency when handling various issues relating to workers' interests.

The interviewed garment factories have admitted that they are facing economic challenges in fully implementing the ESG principles. Despite this, it is a broader commitment for them to meet the requirements to sustain their business. It is necessary to comply with current government policies and regulations to conduct business, and generally, this is a prerequisite to being suppliers for international buyers. These include compliance with the local labour laws such as the payment of minimum wage for workers along with other allowances and incentives, ensuring occupational safety and health (OSH) of workers, following waste management (disposal, re-use and recycling), water treatment, including complying 21 critical issues as per the BFC's Critical Issues Transparency Program. The garment factories' Critical Issues Report from the BFC is shared with the Ministry of Labour and Vocational Training and the Ministry of Commerce (MOC) for enforcement purposes and with international buyers for selecting/continuing with their suppliers. Therefore, non-compliance with the ESG principles will debar the garment factories from their business, indicating that the garment factories are aware of ESG principles. Interviews with the ministry officials have also revealed that almost all garment factories have varying degrees of knowledge about ESG principles, although factories supplying their products to the European Union (EU) are likely to understand ESG principles better.

In line with the views of the garment factories, some International Non-Government Organizations (INGOs) and Development Partners (DPs) also believed that all the garment factories in Cambodia know about ESG principles because of external forces, one of which is from the BFC. The factories can only be suppliers to international brands when they submit a compliance report. Also, international buyers do factory audits, and the BFC monitors and checks compliance. Therefore, it is essential for clothing factories to understand ESG principles. It was also revealed that the garment factories have their internal auditing system in place to monitor the implementation and performance of the ESG principles. Some of the KIs have felt that the factories' knowledge about the ESG principles is limited as there have not been many opportunities for interactions with others. Thus, knowledge of the garment factories about the ESG principles is well present, but in varying degrees.

#### Box 4.1: Knowledge about the ESG Principles

*“All the garment factories have the knowledge about ESG principles in order to operate, including occupational health and safety, protecting workers’ rights, and information regarding governance issues. Factories having social compliance units might have better knowledge compared to others although it may be limited.”*

*-Key Informant (INGO)*

### **Level of Implementation of ESG principles by the garment factories in Cambodia**

The surveyed garment factories are currently the suppliers of H&M, Adidas, Calvin Klein, Ralph Lauren, Levi’s, Costco, and Mango. According to the sample garment factories, there is no escape from implementing the ESG principles, as international buyers require meeting the minimum standard. In addition, they have conformed to other standards depending on the country they would like to supply their products. For instance, supplying to the United States of America (USA) requires them to acquire Worldwide Responsible Accredited Production (WRAP) certification, the world's most extensive factory-based certification program that certifies facilities for compliance with the 12 WRAP principles which assure safe, legal and ethical manufacturing processes. The factories have mentioned that WRAP certification provides potential buyers with a widely recognized and accepted level of assurance. Having that certification means the factory is currently meeting international social compliance standards. Likewise, the garment factories have shown interest in the HIGG Index, which is an indicator-based tool for apparel and footwear products for assessing environmental and social sustainability throughout the supply chain as developed by the Sustainable Apparel Coalition (SAC). One interviewed garment factory has also mentioned the Leadership in Energy and Environmental Design (LEED) compliance, which includes sustainable site development, water efficiency, energy and atmosphere conservation, materials selection and resources, indoor environmental quality, innovation, regional priority and integrative process credits. Enabling such certification requires the factory to maintain the highest standards in everything from construction to production. Therefore, the garment factories feel they are bound to implement the ESG principles to remain in business, although it may be in several different ways.

International buyers such as H&M consider compliance with the law as the fundamental starting point and expects business partners to apply the requirements and commit to complying with the fundamental requirements, implement them in their operations, and aim to realize them throughout the supply chain. Furthermore, it engages and continues to grow with business partners that share H&M’s sustainability ambition beyond mere compliance with the law to

advance social and environmental sustainability (aspirational performance criteria). The respondent from Gap stated that the company has a system to evaluate their suppliers with the BFC's support. By using a colour coding system such as red, yellow and green, the company declines to work with the red-coloured factories as that indicates the presence of cases of unaddressed workers abuse. In addition, Gap considers child labour issues seriously. Also, the company ensures that all suppliers have appropriately complied with the OSH of the workers. However, the concern lies in the extent to which the sub-contractors implement the ESG principles in their factories.

In response to questions on implementing the ESG principles, ministry officials opined that complying with the labour laws and other requirements is mandatory for the factories. However, there may be exceptions if their local buyers do not require them to comply, although they cannot avoid ignoring the existing labour laws and government stipulations. The trade unions have viewed a lack of commitment among the garment factories about implementing the ESG principles. In their view, around 60 per cent of large garment factories have implemented ESG principles due to the BFC's inspections and compliance requirements. Most INGOs

**Box 4.2: Implementation of the ESG Principles**

*"...a few factories consider workers as vital for their business. What is more concerning is that a lower proportion (around 30 to 40 percent) of the small-size factories implement the ESG principles. Most of the smaller size factories intend to avoid complying the ESG principles due to the economic reasons, and viewed it as a less priority."*

*-Key Informant (Trade Union)*

claimed that all formal production units monitored by the BFC have complied with the factory's critical issues. In contrast, some informal production units (done through sub-contracts) display no or partial compliance. They also state that adherence to stipulations like minimum wage arises from external pressure from the government or the BFC and is the only way for factories to remain in business. Although ESG concepts have been implemented in garment factories, it has not been very effective due to a lack of workers' awareness of trade unions, protection of their rights, and other governance issues. As a result, issues relating to workers' rights, including the freedom of association, remain. Therefore, according to DPs, despite the majority of Cambodian garment factories implementing the ESG principles, partial compliance is still evident because of poor governance, lax enforcement of laws and regulations, and the nexus between the government and employers.

In the FGDs, worker participants gave conflicting views. Some workers believe that the current state of the ESG implementation in Cambodia's garment factories is improving because those factories provide workers with a clean, comfortable, and safe working environment. They have perceived that sexual harassment and gender discrimination are rare. The factories follow the minimum wage as stipulated by the government. On-site healthcare facilities are available for workers. Also, there are independent trade unions to protect workers' rights. In addition, during the COVID-19 pandemic, their factories have complied with government protocols and social distancing norms.

However, some workers have felt that ESG implementation remains limited in their factories. For instance, the open space in the factory is insufficient to accommodate all employees during break time, and the outdoor environment of the factories is not clean and hygienic. Thus, we can

foresee that although a more significant number of garment factories have been implementing the ESG principles, exceptions remain. Additionally, whereas large-scale factories fully execute these principles, the same cannot be said for small-scale units.

### Benefits of implementing ESG principles by the garment factories

There is no dearth of literature concerning the significant benefits of implementing ESG principles by garment factories. Among these are the advantages for various stakeholders connected to business, society, and the general public. All the key informants have viewed similar benefits of implementing the ESG principles in the garment factories in Cambodia.

International buyers highly value implementing the ESG principles as it reduces potential risks such as factory fires and workers' health hazards and positively impact climate and air quality, water resources, and waste management. According to them, ensuring workers' good physical and mental health raises their productivity. The benefits can be seen in the absence of disruptions in the production process, and ultimately, the factory's reputation is what matters. From the views of the garment factories, effective implementation would lead to improved trust and reputation with foreign buyers. While promoting broader benefits for the workers through applying the ESG principles, the trade unions also noted that this would cause the factories to draw in more purchase orders from foreign purchasers, increasing their company's profitability.

#### Box 4.3: Benefits of Implementing the ESG Principles

*“...if the ESG principles are implemented properly by the factories, the benefits so derive will be shared by all (workers, factories, international buyers, people of producing countries, people of importing countries, and the larger society) as there is a value chain involved in it. Freedom of association and dialogue ensure a better environment leading to building trust and respect between workers and management of factories. Compliance with the labour standards prevent the factories to debar from business as it does not show no non-compliance record, and lead toward sustainability and growth of the business. Through good governance and social values, discrimination among the workers is eliminated ensuring benefits for the marginalized workers. Also, by complying with ESG principles, the factories can ensure meeting the expectations of the international buyers, and sustainability of their business.”*

*-Key Informants (INGO & DP)*

Putting the ESG principles into practice has two main advantages: in a more limited sense, it ensures workplace safety, improves worker health and working conditions, and increases their standard of living; and in a more general sense, according to ministry officials, it ensures sustainable development and levels the playing field to draw in more investment to the industry.

In the FGDs, the worker participants, like other key informants, viewed that ESG implementation benefited the workers and factories by creating a clean, safe and comfortable work environment for the workers that promotes their health and well-being. The rationale behind their opinion is that healthier and happier workers are more committed and, thus, more productive. In addition, when the garment factories comply with the worker's rights, it leads to fair pay, including other benefits. Also, it creates job security in the garment sector and thus improves the workers' livelihood. On the other hand, worker unrest does not disrupt the factory's production process.

Therefore, implementing the ESG principles safeguards the dual interests of workers and owners of the factories.

### **Importance of workers' rights from the social governance perspectives**

All of the study's key informants recognise the importance of workers' rights from the perspective of social governance. Not only are the rights of the employees being protected, but also all human rights. It is essential to instil values and respect in society for all people.

Garment factories believe that protecting workers' rights and safety is the fundamental requirement to carry out their business. Although it is salient to the factories, they felt this should be reciprocal. International buyers like H&M give due importance to freedom of association and collective bargaining. As a fundamental requirement, H&M demands that all workers enjoy the right to join or form a trade union of their own and bargain collectively. Workers' representatives should not be discriminated against and should have access to their representative functions in the workplace. According to H&M, where the right to freedom of association and collective bargaining is constrained by national law, the employer should encourage, rather than hamper, the creation of parallel mechanisms for achieving these rights. To go above and beyond what is required by law and international standards, the employer should regularly engage with employee representatives to facilitate and promote social dialogue and directly with local and regional trade unions to proactively address issues of concern to the workforce. As revealed by the respondent of Gap, like H&M, they require garment factories to encourage freedom of association and take action immediately against any case relating to worker abuse.

For the trade unions, protecting the workers' rights is a matter of social responsibility for the factories, which would create a safe workplace for the workers and lead to good working conditions for them. The garment factories may improve their reputation by adhering to the workers' rights, which would draw in more foreign purchasers and ensure the industry's long-term viability.

According to the ministry officials, from a social perspective, the importance of workers' rights lies in preventing abuse and sexual harassment and making the workplace safe. From a broader perspective, it leads to harmonizing industrial relations and building a good reputation for the country in local and international settings leading to higher foreign investment inflows to Cambodia. Once more, its significance might be observed in the enhancement of employees' and peoples' overall quality of life.

Through a social governance lens, the DPs and INGOs believe that assuring workers' rights ensures a more robust supply chain and non-disruptions in production flows. This results in sharing benefits with the suppliers, buyers, and society. Like the ministry officials, they viewed that protecting workers' rights in garment factories ensured better living conditions of workers leading to a surge in productivity and higher contribution. Above all, this addresses issues relating to social injustice.

In the FGDs, the participant workers have expressed that ensuring workers' rights is vital for the garment factories as it promotes democracy and freedom of speech. They have also felt that a better and safer workplace contributes to higher productivity and stronger rapport between the workers and management. Thus, from the social governance point of view, the importance of workers' rights cannot be overlooked.



## Supporting worker's rights by the garment factories

With regard to the support extended by the garment factories toward workers' rights, especially women's rights, international buyers like H&M clearly define provisions that require compliance by the suppliers. For instance, the key informant of H&M mentioned that workplace safety and the health and safety of employees are a priority for H&M at all times, and the factories shall provide a safe and hygienic working environment. As stated in the Sustainability Commitment of H&M Business Partner, "every employee is treated with respect and dignity at all times, and no employee shall be subject to humiliating or corporal punishment or subject to physical, sexual, psychological or verbal harassment or abuse" (p.3). Further, there should not be any discrimination by the factories in hiring, compensation, training, promotion, termination or retirement on any grounds. H&M's fundamental requirement ensures that in each factory, a grievance mechanism should be in place, enabling employees to put forward their complaints without fear of retaliation. As far as recognized employment is concerned, the Sustainability Commitment of H&M Business Partner states, "all work performed must be on the basis of recognized employment relationship established through national law and practice" (p.3). Also, concerning fair living wage and benefits, it states, "the wages and benefits paid by the factory for a standard working week must meet, at a minimum, national legal level, industry level, or collective bargaining agreement, whichever is higher. In any event, a fair living wage should always be enough to meet the basic needs of employees and their families and provide some discretionary income. All wages shall be paid on a regular basis and in full, and the particulars of the wage for a pay period must be provided in written and understandable form" (p.4). H&M's key informant stated that the garment factory must abide by Cambodian labour laws regarding weekly working hours and overtime hours. The factory must ensure that all workers should enjoy the right to join or form a trade union of their choosing and to bargain collectively. Workers' representatives should not face discrimination and should be permitted to exercise their representative roles in the workplace.

### Box 4.4: Supporting the Worker's Rights

"...we strongly encourage our workers to actively participate and contribute in all activities. Our in-house senior counsellor (mother-like) facilitates with the workers and looks after the issues involving their interests. In case, a complaint involves the dubious role of the supervisor, then the human resource department investigates the matter with the help of the counsellor to deal with the dispute. Our intention is to support the worker's rights, especially the women's rights as much as we can...."

-Key Informant (Garment factory)

According to the respondent from Gap, garment factories largely support workers' rights, especially women's rights. For instance, the factories allow overtime hours to the workers per the national guideline, and Gap conducts random inspections and interviews both the workers and management to ensure compliance with the same. Similarly, Gap supports trade unions and provides training to prevent abuse of workers in the factories.

The garment factories have felt that they adequately support and protect the worker's rights, including the women worker's rights, by respecting the Cambodian labour laws and beyond. As a standard norm, the factories provide fair opportunities to all in terms of hiring, access to training, promotion, etc. The workers are granted and correctly compensated for any paid leave to which they are legally entitled. The factories have a grievance redressal mechanism that enables workers to report their complaints. For women, all pregnant workers receive maternity benefits as per the applicable laws and regulations. For instance, one respondent who works in the

garment industry observed that the factory pays them 50% of their monthly wage at the start of their maternity leave and welcomes them back to the factory after their three-month leave. In addition, the factories have breastfeeding areas where female employees can nurse their infants.

The key Informants of the ministries have strongly felt that the garment factories support and protect the workers' rights, resulting in a drastic reduction of abuse cases over time. However, they believed that garment manufacturers could aim to improve in this area as the implementation of legislation to protect worker rights requires a thorough grasp and awareness of the relevant laws, rules, and regulations.

Trade unions provided conflicting opinions in response to the support provided by the garment factories to the workers' rights, including women workers' rights. While some trade unions believed that the garment manufacturers greatly supported and protected these rights, others said it was far more limited and only because of external pressure. Some labour unions have argued that the systems in place at factories support their positive viewpoints. In contrast, the other trade unions have raised concerns about informal small-size factories or production units targeting local markets. Some trade unions stated that, compared to nations like Bangladesh, Vietnam, and others, Cambodian garment workers earn a higher minimum salary, endorsed by the employers and their organisations like GMAC and supported by a strong political will. However, when some overseas customers withdrew their commitments during the COVID-19 pandemic, workers suffered greatly, and, in some instances, the plants were closed, leading to unemployment.

In response to how the workers' rights have been supported and protected in their factories, the workers of the garment factories in the FGDs have stated that it has been done by factories complying with regulatory provisions. For instance, labour laws and policies are in place to protect their rights. Trade unions contribute productively by addressing issues relating to workers' rights, and freedom is ensured for workers to raise their concerns without fear. There have been training programmes by NGOs on workplace hygiene and sexual reproductive health. The factory holiday calendar aligns with the national holiday calendar. Payments to the workers are made fairly using a mobile payment service provider known as *Wing*. Respect for the women workers at work is ensured by making the workplace safe without fear of sexual harassment or gender discrimination, allowing pregnant women workers to leave work 15 minutes earlier and mothers to breastfeed their babies 30 minutes before their scheduled jobs. Thus, the opinions acquired from the key informants and employees revealed that although there has been significant progress in the garment manufacturers' support of workers' rights, particularly women's rights, there is still room for improvement in this sphere.

### **Compliance with the existing government's policies and regulations by the garment factories**

Adhering to set standards, practices, government policies, and regulations is crucial for garment factories' sustainability and growth. This is required to produce high-quality products, achieve production goals, satisfy international buyers, maximize profits, and above all, respect workers as human beings. Therefore, garment factories must realize that adhering to the government's existing policies and regulations offers several advantages for workers, factories, and international buyers.

Human Rights Watch (2015) found through their evidence-based research that several factories routinely issued illegal short-term contracts to avoid paying workers maternity and other benefits as well as to intimidate and control them. Small factories that subcontract to larger export-oriented factories are more likely to hire workers on a casual basis, making it harder for workers to assert their rights. Employees questioned by HRW had complained that overtime was mandatorily imposed even though Cambodian labour law stipulates that it must be voluntary.

Key informants of the garment factories have attested that they adhere to policies and regulations that the government periodically stipulates. Their compliance has been inspected/monitored by the officials from the ministries and BFC. However, the ministry's key informants have reported instances in which some garment factories have forced employees to work overtime and unexpectedly terminated their employment contracts. Additionally, some unions have highlighted cases in which employees lost their employment due to their participation in union activities. In addition, garment factories use shorter-term contracts for workers to discourage them from joining labour unions. Thus, there are examples where garment factories have failed to comply with the existing government's policies and regulations.

## **4.2. Policies and Legal Frameworks of Workers' Rights in the Garment Sector**

This section presents the existing levels of policies and legal frameworks of workers' rights in the garment sector. It includes literature and discussions relating to the current policies and legal frameworks toward protecting workers' rights, including women's rights in the garment sector both at the national and international levels, promoting workers' rights and women's rights by the government in the garment sector in Cambodia, mechanisms to prevent the abuse of workers' rights in the garment sector, and policy gaps to promote workers' rights in the garment industry. In addition to the literature, the analysis also considers the views and opinions of key informants acquired via FGDs.

### **Existing policies and legal frameworks toward protecting workers' rights, including women's rights in the garment sector**

Workers' rights at the international level are laid out in several human rights conventions and treaties, including the Universal Declaration on Human Rights (Articles 23 and 24, 1948) and the International Covenant on Economic, Social and Cultural Rights (1966), which provide for:

- The right of everyone to the opportunity to gain his living by work which he freely chooses or accepts
- The right to the enjoyment of just and favourable conditions of work, in particular, remuneration which provides all workers, as a minimum, with fair wages and equal remuneration for work of equal value and a decent living for themselves and their families
- Safe and healthy working conditions
- Equal opportunity for everyone to be promoted in his employment to an appropriate higher level, subject to no considerations other than those of seniority and competence
- Rest, leisure and reasonable limitation of working hours and periodic holidays with pay, as well as remuneration for public holidays
- The right of everyone to form and join the trade union of his choice and the right to strike provided that it is exercised in conformity with the laws of the particular country.

In 2011, the UN Human Rights Council unanimously endorsed the UN Guiding Principles on Business Principles on Business and Human Rights (UNGPs), the first international instrument to assign companies the responsibility to respect human rights. The UNGPs highlight the state's responsibility to have adequate laws in place to protect workers' rights, guide businesses on what is expected of them, and ensure adequate enforcement of these laws (UNGPs 1-3). UNGP 12 states that *"the responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work"*. The Gender Guidance to the UNGPs states that *"in order to respect the internationally recognized rights of women, business enterprises should consider, among other instruments, the Convention on the Elimination of All Forms of Discrimination against Women and the Convention on the Rights of the Child relevant in all circumstances and throughout their operations."*

The ILO has developed legal instruments setting out basic principles and rights at work. The ILO's Governing Body has identified eight conventions as *"fundamental"*, which address freedom of association, collective bargaining, equal remuneration, non-discrimination, and eliminating forced and child labour. The Royal government has shown its commitment by ratifying these fundamental conventions. Other non-fundamental ILO Conventions cover issues from wages, working hours, and occupational health to safety, maternity protection, and social security.

In the context of Cambodia, as per its Constitution and the Cambodian Labour Law (1997), provisions are placed through several articles to protect workers' rights (including women's rights). Please see section 2.3 under the literature review.

### **Promoting workers' rights and women's rights by the government in the garment sector**

The Royal Government of Cambodia, through its legal provisions, policies, mechanisms and actions, has shown its commitment to promoting workers' rights, especially women's rights in the garment sector.

In addition to the provisions stipulated in the Constitution and Cambodian labour laws, the government has ratified all eight ILO conventions considered fundamental principles and rights at work. These include the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Forced Labour Convention, 1930 (No. 29) (and its 2014 Protocol); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); Equal Remuneration Convention, 1951 (No. 100); and Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

The key informants of the garment factories have noted that the government's efforts to advance women's and workers' rights in the apparel industry have been made possible by close coordination between GMAC and the MoLVT. Ministry officials have expressed the government's commitment in terms of compliance with the labour laws by the garment factories and enforcement of social protection by the Royal government. Under the Social Security Law, the National Social Security Fund (NSSF) was established to manage the social security schemes by ensuring that contributions from its members (workers) and employers are appropriately

collected, used and invested (Sok, 2018). The focus is to reduce poverty and vulnerability, improve living standards, and provide a better future for the country.

Even though some trade unions feel that the government has engaged actively in promoting workers' rights and women's rights by holding factories accountable for complying with labour laws and workers' rights and making sure that the trade union follows the procedure to equally protect all parties involved, for other trade unions, the actions taken by the government are ineffective. For instance, the 2016 trade union law favours factory owners and employers above employees. The authorities have not acted reasonably in response to the unions' complaints regarding the factories' offer of short-term contracts to workers. Additionally, the Trade Union Law establishes several norms for managing and establishing unions

**Box 4.5: Promoting the Workers' Rights and Women's Rights by the Government**

*"The government holds garment factories accountable for complying with the labour laws. The MoLVT in collaboration with the BFC builds workers' capacity, and labour inspectors ensure that the rights of workers along with women's rights are protected. In spite of this, it is observed that the government is not very active in this direction. By setting up a factory, the government is successful in creating jobs, but not protecting the rights of the workers...."*

*-Key Informant (INGO)*

that infringe on employees' right to associate freely. By reserving primary representation and bargaining rights to those unions who have obtained the 'Most Representative Status,' the associational rights of workers have been unduly curtailed. Thus, the government should proactively promote workers' rights, especially women's rights in the garment sector.

### **Mechanisms to prevent the abuse of workers' rights in the garment sector**

The mechanisms to prevent abuse of workers' rights in the garment sector through the BFC's monitoring and compliance involving 21 Critical Issues are intended to improve working conditions and boost the industry's overall competitiveness. As mentioned by the BFC, "covering more than 550 factories and 550,000 workers, BFC has helped to spur improvements in factory working conditions and workplace environment across the garment industry in Cambodia."<sup>21</sup> Further, through various training programs, BFC strives to strengthen the managers' and workers' knowledge and skills to improve their workplaces. It offers practical training to managers, supervisors and workers on technical and other aspects to create safer working environments, effective relations in the workplace, and sound management systems. The General Department of Labour, MoLVT, also conducts timely factory inspections and follows up on labour law enforcement to stop the violation of workers' rights in workplaces.

To protect workers against unduly low pay and as a policy to overcome poverty and eliminate gender discrimination, the Royal government has shown its determination by promoting the right to equal remuneration for work of equal value. As per Article 357 of the Cambodian Labour Law 1997, the Labour Advisory Committee (LAC), consisting of workers, employers and government representatives, leads the minimum wage discussion and recommends the minimum wage increment to the government. If necessary, the LAC can create a tripartite technical working group made up of an equal number of representatives from each of the three parties (employers,

<sup>21</sup> <https://betterwork.org/where-we-work/cambodia/bfc-programme/>

workers, and the government) to discuss the data, criteria, and rate of the minimum wage increment in more detail and come up with a recommendation for LAC to take into consideration. This provision by the government intends to protect workers from arbitrary or low wages offered by the factories. Also, the participation of workers' representatives in determining the minimum wage shows the government's concern for promoting workers' and women's rights.

According to one of the key informants of the international buyers, mechanisms exist to prevent the abuse of workers' rights in garment factories, such as programmes for workers' engagement and awareness building. A workplace sexual harassment policy, an implementation guide for factories, and extensive multi-media training for factories to provide to staff to prevent and report sexual harassment are all included in CARE International Cambodia's workplace package for garment factories.

However, the other key informant of the international buyers has viewed that there is scope for further improvement to prevent workers' rights. The government should strengthen the Arbitration Council (AC) as a mechanism for resolving industrial disputes by allowing minority unions to represent members in collective labour disputes and making all AC decisions binding. Also, the government should allow workers to choose their own representatives for dispute resolution. Responses from some of the key informants of the garment factories reveal that the existing mechanisms to prevent the abuse of workers' rights include the provision of training to new workers and line leaders on the prevention of sexual harassment and ensuring occupational safety and health as line leaders would provide liaison and report on any abuse of workers' rights to the manager. In addition, conducting counselling among the workers about their rights and duties, holding supervisory training, and monitoring the activities at all levels are included.

According to the key informants of the trade unions, apart from the government provisions, there are independent unions whom workers reach out to when there is any conflict or abuse of workers' rights in the factories. Additionally, each factory has a team responsible for resolving disputes or complaints to uphold workers' rights. There is also a collective bargaining agreement to protect workers' rights. Also, trade unions conduct '*know your rights*' training among workers to build awareness. However, the effectiveness of the abuse prevention mechanism is limited, as the government is more committed to protecting the interests of the employers rather than the workers. This is evident from the trade union law adopted in 2016, which prohibits unions without the '*most representative status*' from participating in collective bargaining or seeking government mediation to resolve disputes. The INGOs and DPs have equally voiced that several mechanisms are in place, including having operating manuals in each factory, conducting workshops to educate and train workers about their rights and prevention mechanisms, alternative dispute resolution from the arbitration council and social protection through NSSF.

The key informants from the ministries have mentioned that the inspection procedure has been recently modified to include an online self-declaration to make it more effective. Also, a multi-ministry level inspection has been incorporated, involving the Ministry of Health and the Ministry of Environment. The MoWA also has other tools, like phone calls to workers to increase awareness, requesting female workers to notify them immediately if their rights are being violated, referring cases to the MoLVT, and cooperating to stop such violations of workers' rights. Thus, it reveals that although several mechanisms are in place, their effectiveness in preventing workers' rights abuses in garment factories needs further examination.

## **Policy gaps to promote workers' rights in the garment industry**

The policy gaps in promoting workers' rights in the garment industry may be viewed in several ways. These include:

- The Trade Union Law adopted in 2016 through complicated requirements has posed severe obstacles to workers forming unions. For instance, to register new unions, workers must submit the names, NSSF identification numbers, addresses and phone numbers of all the union's members and those of their parents, spouses, etc. In addition, Prakas 249 on Registration of Worker Organizations Trade Unions and Employer Associations further grants authorities excessive discretionary control over trade union registration.
- Article 14 of the Trade Union Law does not permit unregistered unions to carry out their operations. Meanwhile, Article I of *Prakas* 249 stipulates that only registered trade unions and workers' organizations have legal personality and status. Because unions lack legal personality prior to registration, they cannot challenge the denial of registration. It violates international norms, requiring a system of notification rather than permission to register a union.
- As per the Trade Union Law, the trade union leaders should be literate and able to read and write Khmer; and never have been convicted of a criminal offence. This poses a significant restriction for garment workers in a country with uneven access to formal education.
- The trade unions that do not have the '*most representative status*' are debarred from collective bargaining or seeking government mediation to resolve disputes. In addition, according to the law, the workers who are members of unions that do not have this status have been increasingly unable to use the Arbitration Council to resolve disputes.
- Currently, the Arbitration Council's rulings are only enforceable if neither party objects. To significantly increase the effectiveness of labour law enforcement in Cambodia, they should be made binding for all parties. Consequently, this might be considered through a legal provision or an agreement between GMAC and the unions

### **4.3. Financial Flows Focusing on Capital Flows in the Garment Industry**

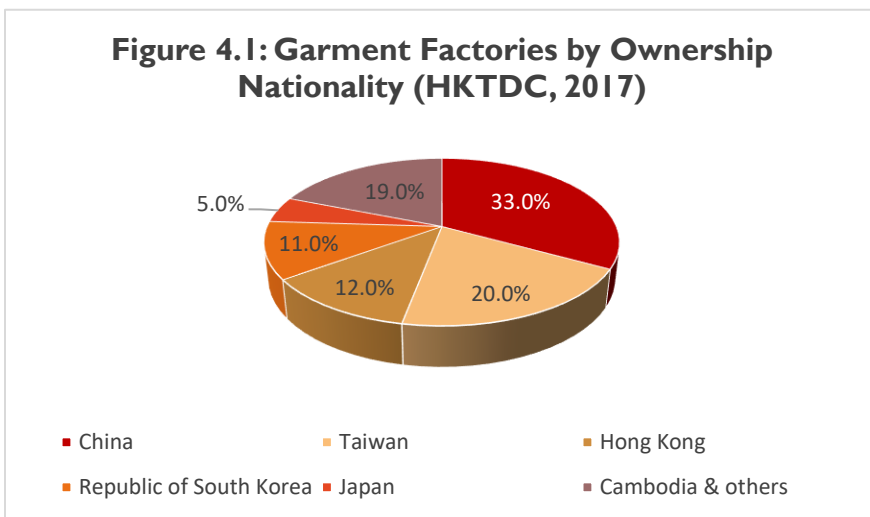
This section discusses the top ten investing countries in the garment sector in Cambodia, along with the social and good governance criteria set up by the financiers on the investment credits/loans, the types of financial transactions between Cambodian suppliers and the international buyers, and the obligations of international buyers to ensure the compliance of workers' rights.

#### **Top ten investing countries in the Cambodian garment sector**

Foreign-owned firms dominate the Cambodian garment industry. The foundations of the current garment industry were established by foreign investors from Hong Kong, Taiwan, Malaysia and Singapore, operating export-oriented garment factories since around 1994 (Bargawi, 2005). One of the defining characteristics of the Cambodian garment industry is the small share of local ownership (Natsuda et al., 2010). Discussions among the key informants revealed that the leading

investors in this sector are from mainland China followed by Hong Kong. According to them, other investors are from Taiwan, the Republic of Korea, Singapore, Malaysia, Thailand, Japan, etc. Earlier research by Yamagata (2006) reveals that most garment exporting firms in Cambodia were wholly foreign-owned. According to the author, 125 firms had confirmed being 100% owned by foreigners, whereas only seven firms were joint ventures with Cambodians, and 14 firms were owned wholly by Cambodians.

Recent research shows that the leading investors in the Cambodian garment industry belong to China, Hong Kong, Singapore, Malaysia and the Republic of Korea (Rastogi, 2018; Firn, 2021). The HKTDC (2017) research shows that the bulk of garment-manufacturing firms in the country is foreign-owned, primarily by companies from mainland China, Taiwan, Hong Kong and the Republic of South Korea.



As shown in the research of HKTDC (2017), GMAC members come from mainland China (33%), Taiwan (20%), Hong Kong (12%), the Republic of South Korea (11%), Japan (5%) and others, including Cambodia (19%).<sup>22</sup> This shows that the firms from greater China accounted for around 65% of the total garment factories in Cambodia (Figure 4.1) and continued their predominance over time.

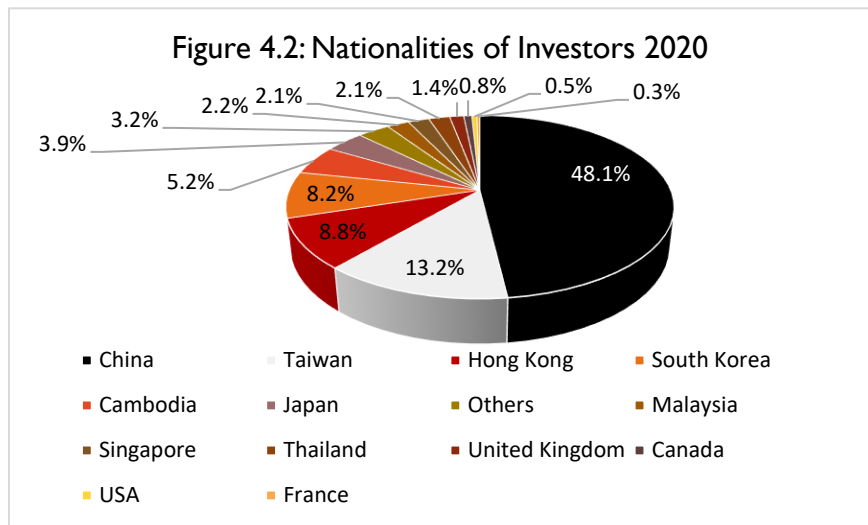
Based on the data from the Ministry of Commerce and GMAC, 2020, the Supreme National Economic Council (2022) reaffirmed the dominance of foreign investors so far as the ownership of the garment, footwear, and travel goods industry in the Kingdom is concerned. While the investors from China, including those from Taiwan and Hong Kong, constitute more than 70.0%, it was limited to only 5.2% for the Cambodian investors (Figure 4.2).<sup>23</sup> The insignificant presence of the national investors may likely pose a risk to the country's employment and growth once the foreign investors decide to leave the country due to the lack of the economy's competitiveness.

<sup>22</sup> <https://hkmb.hktdc.com/en/1X0A9EN7/hktdc-research/Cambodia-Manufacturing-Relocation-Opportunities-I>

<sup>23</sup> Cambodia Garment, Footwear and Travel Goods (GFT) Sector Development Strategy 2022 – 2027.



Thus, the top listed investing countries in the Cambodian garment sector are primarily Asian. Chinese capital, in particular, has contributed substantially to Cambodia's export-oriented garment industry. Thus, as revealed in the Cambodia GFT Development Strategy 2022 – 2027, while the domestic investors in this sector are limited, other investors in this sector are



from South Korea, Japan, Malaysia, the Netherlands, Singapore, Thailand, the United Kingdom (UK), the US, Canada, France, Australia, India, Sweden, Switzerland, and other countries.

### **Criteria (social and good governance) set up by the financiers on the investment credits/loans**

Although it was interesting and valuable to know the social and governance criteria set up by the financiers on the investment credits/loans to the garment factories, due to the nondisclosure of the factories about the names of their financing institutions and other related information, the research team has been constrained to trace the institutions and contact them for further information in this regard. Upon approach, the National Bank of Cambodia (NBC) also directed the research team to communicate with the relevant financing institutions and left it to the discretion of the said institutions. The research team contacted the Association of Banks in Cambodia (ABC) as a key informant and requested their response to obtain information about the financiers' social and good governance requirements for their investments in the Cambodian garment industry. According to the ABC, there are currently no industry standards for social and good governance standards, and each bank adheres to its own norms. As such, it is required to understand the institutions financing garment factories to further this line of research.

### **Financial transaction types between Cambodian garment suppliers and the international buyers**

Cambodia's garment industry focuses heavily on the buyer-driven commodity chain in which the value-added activities concentrate on the Cut-Make-Trim (CMT) process. Discussions among some of the key informants of the garment factories revealed that since they are contractors, they do not require to find international buyers. Their head offices build networks, carry out marketing activities, receive orders from international buyers and then communicate the amounts of orders, instructions and samples to them. Once the order is received, they must adhere to the instructions to ensure the consistency and quality of the products as specified by international buyers. For instance, one of the factory's head offices is located in Hong Kong, receiving orders from an international buyer. The manufacturing unit (factory) is located in Cambodia, obtaining raw materials like leather, fabric, labels, and washing chemicals from Hong Kong. The factory in Cambodia has to work on CMT. It does not have to design the samples as that will be done by

the head office in Hong Kong, which is the intermediary for the factory in connecting with the international buyer. Once the final products are ready, the factory has to ship the products to the international buyer based on the destination set in the instructions and not to the Hong Kong head office. In the CMT process, the factory has to incur the costs of labour, energy, building, transportation and local customs.

Some of the factories in Cambodia run full-package production, in which the design and sample making is part of their tasks, according to the key informants of the garment manufacturers. The factories have high-tech equipment, raw materials, a vast labour pool, and a research and development programme to produce new garment products. They incur high costs in production, including materials and rent. Once the products are ready, these full-packaged production units export their products to designated buyers or retailers based on the purchase orders. In addition, some factories practice mixed production, which involves designing and making samples for some products. In our study, one of the manufacturers we spoke with was a subcontracting business that relied on orders from her suppliers for specifications on tasks like cutting, sewing, washing, and sandblasting.

### **Obligations of international buyers/networks to ensure the compliance of workers' rights**

International buyers are guided by their own corporate social responsibility (CSR), showing commitment to responsibly managing the social, economic and environmental effects of their operations as per the stakeholders' expectations. Ensuring compliance with workers' rights empowers workers, boosts their morale, and leads to greater productivity.

International buyers are responsible for ensuring that workers' rights are upheld in terms of social justice and human dignity. H&M states that they require their suppliers to respect Cambodian labour laws in all aspects, comply with laws relating to working hours and overtime hours, guarantee workers' rights to join or form a trade union for collective bargaining, give opportunities for workers' representatives to freely carry out their functions, and treat every worker with respect and dignity. Additionally, factories must provide a safe and hygienic working environment, prioritising workplace safety and workers' health and safety. The key informant from Gap also believes that foreign buyers are responsible for ensuring workers' rights are upheld. For instance, Gap urges the government to raise standards across the board since it is concerned about how well non-exporting manufacturers and subcontracting companies support workers' rights in their facilities.

Key informants of the garment factories and ministry officials have mentioned that international buyers visit their suppliers and conduct technical and social compliance audits on a timely basis to fulfil their obligations towards workers' rights. Key informants of

#### **Box 4.6: Obligations of the International Buyers to ensure Compliance of Workers' Rights**

*"...if international brands are responsible buyers, they should certainly like to see that the workers' rights are well protected. In practice, they are not doing enough to promote workers' rights unless there are pressures or outside forces compelling them to act such as demonstration that affect their reputation, law suit against them or abuse happening in their supplier's factory which appears in the media ...."*

*-Key Informant (Trade Union)*

the trade unions state that as part of their CSR, multinational buyers should be responsible for ensuring that employees' rights are upheld. Before selecting a supplier, they should ensure that the factory has an independent labour union that guarantees workers' rights. According to the key informants of the INGOs and DPs, international buyers need to work with independent labour unions to hold factories accountable for the compliance of workers' rights. They have also stated that because they are ethical corporate entities and conduct their operations through their CSR, overseas buyers should be required to ensure that Cambodian manufacturers uphold workers' rights. This would improve the brand's commercial value.

#### **4.4. Financial Institutions' Obligations to Reduce the Negative Impacts on Workers' Rights**

This section discusses the obligations of financial institutions to limit adverse effects on workers' rights. It examines the steps financial institutions take to lessen the detrimental impact of workers' rights in the apparel industry and the standards for enhancing the investment credit and loan approval procedure.

#### **Actions of financial institutions to reduce the negative impacts of workers' rights in the garment industry**

Financial institutions have a definite role to play in reducing the negative impacts on workers' rights in the garment industry. Before providing loans to any garment industry, responsible lenders should conduct ESG due diligence and consider social and environmental factors because these loans may negatively impact society. In addition, financial institutions should thoroughly scrutinise the factories' activities to ensure that no human rights violations are reported. The BSR's Top 10 Human Rights Risks for the Financial Sector states, "it is crucial for the financial institutions to conduct supply chain mapping to identify the greatest risks, investigate compliance with local laws, and, where possible, remediate violations."<sup>24</sup> ABC's key informant has stated that although financial institutions are under no legal obligations, they can pressure factories to act per Cambodian labour laws and may withhold credit in case of non-compliance. However, it is entirely up to the particular financial institution to take action.

##### **Box 4.7: The Case of ANZ Banking Group**

*Australia and New Zealand Banking Group Limited (ANZ) strongly commits to fair and responsible banking by developing innovative and responsible financial products and services; working with customers that support social and environmental sustainability in their approach; harnessing the skills of their people; and supporting the communities. In this context, prior to entering into a relationship, screening customers is utmost valuable for ANZ.*

*Under ANZ's credit policy, the bank annually reviews its business customers. In case, the prospective or existing customers failed to adapt their practices in an appropriate timeframe, the bank declines further financing or exit the relationship. For instance, in 2014, ANZ cuts off ties with Phnom Penh Sugar allegedly due to "inadequate response" to a plan to remedy concerns about forced evictions and child labor.*

*-Secondary Information*

<sup>24</sup><https://www.bsr.org/en/our-insights/primers/10-human-rights-priorities-for-the-financial-sector>

## **Criteria and/or requirements to improve the investment credits/loan approval process to protect workers' rights**

Workers' rights are fundamental to protecting human dignity, needs, and freedoms. As stated in the preceding section, compliance with Cambodian labour laws should be a primary requirement for manufacturers seeking credit/loan approval from financial institutions. Furthermore, financial institutions should develop criteria based on the number of rights violations in a given year compared to previous years. Protecting workers' rights is the immediate concern of the garment factories, according to ABC's key informant, so this issue should be left to the financial institution in question. Improving the investment credit/loan approval process to safeguard workers' rights in Cambodian garment factories requires a concerted effort by financial institutions, garment factories, and independent unions.

## 5 CONCLUSIONS AND RECOMMENDATIONS

This research study covers the broad spectrum of the roles and effectiveness of international buyers and financial institutions in enhancing ESG implementation in the garment industry in Cambodia. The lens of research questions focuses on the following areas concerning the garment industry: current worker rights policies and legal frameworks, implementation of ESG principles, capital inflows, and financial institutions' obligations to reduce the negative impacts on workers' rights by the garment industry. This section presents the main findings of the study along with its conclusions and recommendations.

### 5.1. Conclusions

This extensive investigation demonstrates that awareness of ESG principles in clothing manufacturing varies. Further, trade unions reveal conflicting views about the factories' awareness levels. Although garment factories are committed to implementing the ESG principles, they face financial burdens in doing so. The factories know non-compliance with ESG principles will debar them from their business.

International buyers view adherence to Cambodian labour regulations as the primary starting point and anticipate that their business partners will put the requirements into practice and commit to abiding by the fundamental standards. Trade unions, however, have felt that the garment factories lack the commitment to implementing ESG principles. Although there is evidence of ESG implementation in larger factories, concerns about the amount of implementation by subcontractors or small, non-exporting enterprises remain.

Implementing the ESG principles by the garment factories generates benefits for all stakeholders. It ensures workplace safety, better health and working conditions for the workers raising their livelihoods, improving productivity and quality, promoting sustainable development, and creating a level playing field to attract further investment to the sector. It safeguards the interests of both the workers and the owners of the factories.

From the social perspective, the importance of workers' rights lies in preventing abuse and sexual harassment, non-discrimination, and making the workplace safe. From a broader perspective, it leads to harmonizing industrial relations and building a good reputation for the country in both local and international settings.

Despite the commitment shown by the garment factories, there are lapses in ensuring workers' rights. Small factories that subcontract to more giant export-oriented factories hire workers on a casual basis. Of additional concern is short-term contracts that restrict workers from carrying out union activities, compel them to work overtime, and abruptly terminate their contracts. Despite legislative protections for workers' rights, gaps exist between policy and practice.

Even though the government has actively promoted workers' and women's rights by holding factories accountable for complying with labour laws, the trade union law adopted in 2016 favours the employers/owners of the factories instead of the workers. As informed by the key informants, the government has not fairly responded to the trade unions' complaints concerning workers' short-term contracts. Additionally, the Trade Union Law has a number of conditions for the registration and governance of unions that go against employees' freedom of association. By

reserving primary representation and bargaining rights to those unions that have obtained the 'most representative status,' the associational rights of workers have been unduly curtailed.

Several policy gaps in promoting workers' rights in the garment industry are revealed in the Cambodian context. These include:

- The current Trade Union Law, through complicated requirements, has posed serious obstacles to forming unions by workers. For instance, to register new unions, workers must submit the names, NSSF identification numbers, addresses and phone numbers of all the union's members and those of their parents, spouses, etc. In addition, *Prakas 249* on Registration of Worker Organizations Trade Unions and Employer Associations further grants authorities excessive discretionary control over trade union registration.
- *Article 14* of the Trade Union Law does not permit unregistered unions to carry out their operations, while *Article 1* of *Prakas 249* provides that only registered trade unions and workers' organizations have legal personality and status. This denial of legal personality prior to registration impacts unions' ability to appeal against denial of registration and violates international norms, requiring a system of notification rather than permission to register a union.
- As per the Trade Union Law, the trade union leaders should be literate and able to read and write Khmer; and never have been convicted of a criminal offence. This poses a significant restriction for garment workers in a country with uneven access to formal education.
- The trade unions that do not have the "most representative status" are debarred from collective bargaining or seeking government mediation to resolve disputes. In addition, according to the law, their members have been increasingly unable to use the Arbitration Council to resolve disputes.
- Currently, the decisions of the Arbitration Council are only binding if neither party objects. However, making all decisions binding would significantly improve labour law enforcement in Cambodia. This could be considered through either an agreement between GMAC and the unions or a legal provision.

Foreign-owned firms dominate the garment industry in Cambodia. The leading investors in this sector are from mainland China followed by Hong Kong, Taiwan, the Republic of Korea, Singapore, Malaysia, Thailand, Japan, etc. The small share of local ownership is one of the essential characteristics of the Cambodian garment industry

International buyers are guided by their own corporate social responsibility showing commitment to responsibly managing the social, economic and environmental effects of their operations as per the expectations of the stakeholders. Ensuring compliance with workers' rights empowers workers, boosts their morale and leads to greater productivity.

It is unknown how closely the financial institutions monitor the companies' actions to ensure no documented human rights breaches occur or how much pressure they apply to the firms to adhere to Cambodian labour regulations when clearing investment credits and loans.

## 5.2. Recommendations

Based on these findings, the ESG implementation study makes the following recommendations keeping the workers' rights in mind:

### For Government:

**Simplify the registration process of the trade unions:** The government should focus its efforts on enacting the required changes to the Trade Union Law to streamline the registration of unions. Complicated requirements such as a no criminal convictions certificate and the bureaucratic registration process should be eliminated to safeguard employees' freedom of association and right to organise.

**Create provisions to allow the unregistered unions to appeal against denial of registration:** The limiting conditions imposed upon the applicant unions having no legal personality and status should be removed to facilitate them to appeal against the rejection of registration and operate before and during the registration process.

**Exempt the family background information of the union leaders:** Required changes should be made by the authority so that union leaders will be exempted from providing family background information. The condition that union representatives must be literate should also be dropped.

**Remove the penalty of suspension, fine or dissolution for failure to meet the reporting requirements:** The imposition of a suspension, fine, or dissolution for failing to comply with the reporting requirements should be based on either worldwide or regional norms for trade unions to allow the trade unions to operate effectively.

**Respect international standards in adopting trade union law:** The government must ensure that any trade union law adopted fully respects international standards. In the future, the drafting process must be transparent and include consultation with independent labour unions and labour rights advocates.

**Ensure effective labour inspection:** To ensure the effectiveness of labour inspection, attention should be given to repeated use of fixed-term contracts; forced overtime and retaliatory measures for refusing overtime; complaints about working conditions for pregnant workers, including discrimination in hiring, contract renewals, promotions; denial of sick leave and disproportionate deduction of attendance bonuses; and complaints of discrimination against union leaders and newly formed unions.

**Enforce provisions of occupational safety and health in sub-contracting factories:** For the overall improvement of the working conditions of workers and their wellbeing, it is necessary to strictly enforce occupational safety and health provisions in the sub-contracting factories. In this regard, the government authorities should conduct adequate monitoring and inspection.

**Strengthen the Arbitration Council:** In the broader interest of the workers and employers, strengthening the Arbitration Council is necessary to resolve industrial disputes. In this direction, restoring access to dispute resolution by the Arbitration Council by directing the MoLVT to resume referring cases brought by all unions to the Arbitration Council should be made. Further,

provisions should be made to allow workers to choose their own representative for dispute resolution and individual disputes to have access to the Arbitration Council. In addition, making all Arbitration Council decisions binding will have a more significant impact on resolving industrial disputes.

**Ratify ILO Convention No. 190:** Recognizing the requirement and relevance of work free from violence and harassment, including gender-based violence and harassment, and others, the Violence and Harassment Convention, 2019 (No. 190) should be ratified by the government.

**Effective Waste Management Practices:** To reduce waste and ensure a green and inclusive garment sector in Cambodia, the Ministry of Environment should train garment factories to focus on effective waste and wastewater management methods. Further, the ministry should ensure the support of stakeholders in identifying the gaps in its policies, exploring opportunities toward initiating reforms and enforcing its policies on enhancing Sustainable Consumption and Production (SCP) in the Garment Industry in Cambodia. To ensure an “*inclusive and environmentally sustainable growth*” model for the garment sector in Cambodia, the role of the Ministry of Environment is of prime importance.

### **For International Buyers:**

**Disclose the names of the suppliers:** To prevent abuse of workers’ rights and in the interest of workers and broader society, international buyers should disclose the names of their suppliers and sub-contractors. The customers would stand to learn about labour rights abuses in the facilities where their items are produced, thanks to this disclosure.

**Create a whistle-blower protection system for workers and union representatives:** International buyers should create a whistle-blower protection system for workers and union representatives who inform them about the unauthorized sub-contracting. The system should ensure that all workers and union representatives receive the required protection, including legal representation, to defend themselves against any lawsuits or criminal complaints filed by factories.

**Ensure sub-contracted factories are reported to BFC:** International buyers should ensure that all factories that have subcontracted work without authorization are reported to BFC for monitoring and advisory services.

**Avoid cancelling purchase orders:** As responsible brands, international buyers should honour the purchase order. Any cancellation, either part or full, can directly hit the workers. Once brands cancel orders, workers struggle to support their livelihoods. As appears in Los Angeles Times (April 15, 2020), “*forgoing payments violates commitments companies have made to uphold human rights - Human Rights Watch.*”<sup>25</sup>

### **For Financial institutions:**

**Engage in ESG diligence:** The financial institutions should engage in ESG due diligence before issuing loans to any garment factory. Also, the institutions should thoroughly scrutinise the

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<sup>25</sup><https://www.latimes.com/world-nation/story/2020-04-15/coronavirus-cambodia-garment-industry>



factories' activities to ensure that no human rights violations are reported. It is equally vital for financial institutions to conduct supply chain mapping to identify the most significant risks, investigate compliance with local laws, and, where possible, remediate violations.

### **For Garment Factories:**

#### **Claim more ownership in complying with the labour laws:**

Instead of the international buyers assessing the factories' compliance with the local labour laws and standards, the factories should themselves claim ownership by moving ahead in meeting the criteria/requirements and compliance thereof. The garment factories should consider it as their priority.

**Stop union-busting activity:** The garment factories should refrain from engaging in such behaviour as it will undermine factory union formation and lower employee morale. Practices such as keeping long-term workers on short-term contracts to discourage their participation in union activities, shortening the length of male workers' contracts, dismissing or harassing newly elected union representatives to prevent the formation of independent unions, and encouraging pro-management unions, etc., should be discouraged.

**Ensure compliance by the sub-contract factories:** To prevent abuse of workers' rights, especially women's rights, the sub-contract firms should stop using casual hiring arrangements and issuing repeated short-term contracts.

### **For the Garment Manufacturers Association in Cambodia:**

**Prohibit discriminatory action against workers:** GMAC should urge the member garment factories to refrain from discriminatory action against workers, such as disciplining or dismissing workers based on sick leave, pregnancy or union membership.

**Support awareness program:** GMAC should actively support awareness programs in member factories against sexual harassment and other forms of harassment in the workplace.

**Negotiate with international buyers to disclose the names of their suppliers:** GMAC should negotiate with international buyers to disclose the names of their member factories as being suppliers to global brands.

**Ensure the sub-contracted factories are reported to the BFC:** GMAC should ensure that their member factories who have subcontracted work are reported to the BFC for monitoring and advisory services.

**Convince international buyers to avoid cancelling purchase orders:** GMAC should put pressure on and convince international buyers to honour their purchase orders in the interest of the workers.

**Negotiate with the financial institutions to engage in ESG diligence:** GMAC should negotiate with the financial institutions toward engaging in ESG due diligence before issuing loans to any of their member factories.

### **For Trade Unions:**

**Provision of training to workers:** Trade unions should provide training to workers about specific gender-related workplace concerns, including sexual harassment at the workplace.

**Encourage home-based garment workers to join unions:** Trade unions should encourage home-based garment workers to join unions and represent in collective bargaining.

**Cooperation and coordination among trade unions:** Trade unions should work together to increase both their and the workers' capacities for advocating workers' rights and avoiding the infringement of such rights, especially those of women, to be more effective.

### **For Better Factories Cambodia:**

**Disseminate information:** BFC should consider disseminating information from the Transparency Database Critical Issues Factories' List to unions and workers in accessible and appropriate formats

In addition, the recently introduced Cambodia GFT Development Strategy 2022 – 2027 has provided several strategic measures in the form of short-term and medium-term, showing the RGC's overall commitment to transform the industry into an environmentally sustainable, resilient and high-value-added industry with a decent workplace for workers to ensure their welfare. It also aimed at achieving a conducive business environment through a partnership between the government, employers, unions and other stakeholders.

To sum up, the study's findings reveal that international buyers and financial institutions should play an essential role in ensuring a green and inclusive garment sector in Cambodia with the support of the government, investors, workers, trade unions, development partners and other stakeholders. In this context, a well-coordinated effort is needed to ensure that workers in the garment industries are well-protected and treated with dignity and respect.

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K9	Who is your financier?	•
K10	Interview: Date & time	• Date: _____ Time: _____
K11	Place of the interview	• Commune/Sangkat/District: _____

**Instructions:**

Before starting the interview, remember to introduce yourself and present the purpose of the survey.

**Interviewer:** “I am conducting a survey as a part of a research to assess the roles and effectiveness of international buyers and international financial institutions in enhancing the implementation of ESG principles in the garment industry in Cambodia. In this regard, we have considered you as a key informant (KI) in the survey. To help us better understand, we are seeking your experience and thoughts on the implementation of ESG principles in garment factories in Cambodia. I will ask some questions to you which may take about 90 minutes. The research is intended to fill up the knowledge gaps and the results will be used for advocacy purposes.”

**Transition:**

“Before going any further with this questionnaire, I would like to assure you that all your answers will remain strictly confidential. Your participation in this survey is completely voluntary. You are free to refuse participation and may stop the interview at any time or request to skip any questions that you do not wish to answer. There is no right or wrong answer.”

Do you have any questions?

Is this a good time to talk?

Can we talk here, or would you prefer somewhere else?

Can we begin?

**Note for Interviewer:** If the respondent does not want to answer, thank him/her and end the interview. If the respondent agrees, begin the interview in a safe place where you and the interviewee feel secure.

Q. No	Questions	Answers
Ia	How do you value the implementation of ESG (Environmental, Social and Governance) principles in the garment sector in Cambodia?	
Ib	Does your factory implement ESG principles? If so, to what extent? Please give examples.	

1c	How has your factory complied with existing government's policies and regulations on ESG principles?
2a	According to you, what proportion of garment factories in Cambodia have the knowledge about ESG principles?
2b	As per your knowledge, what proportion of garment factories in Cambodia have implemented ESG principles?
2c	According to you, to what extent have the garment factories implemented ESG principles?



5b	Did you come across of any type of abuse of workers' rights in your garment factory?
6a	Is there any mechanism to prevent the abuse of workers' rights in garment factories?  If so, could you please elaborate the existing mechanism?
6b	According to you how effective is the implementation of worker abuse prevention mechanism in your garment factory?
7	How actively is the government engaged in promoting workers' rights and women's rights in the garment sector in Cambodia?

8a	<p>Are you aware of the existing policies and legal frameworks toward protecting workers' rights in the garment sector?</p> <p>If so, could you please elaborate?</p>
8b	<p>What are the policy gaps to promote ESG principles and workers' rights in the garment industry?</p>
9	<p>Is there any obligation for an international buyer to ensure the compliance of workers' right?</p> <p>If so, could you please elaborate?</p>
10	<p>What should be done by the financial institutions to reduce the negative impacts on workers' right by the garment industries?</p>
11	<p>Do you have any idea relating to the criteria and/or requirements that should be improved in the investment credits/loan approval process to protect workers' right in the garment industries?</p>

12	Have you ever aware of the participation of any NGOs in engaging financial institutions to promote workers' rights in the garment sector?
13	What are the challenges and best practices in relation to the ESG implementation and promotion of workers' rights in the garment sector in Cambodia?
14	What would you like to recommend to ensure a proper implementation of ESG principles and well protection of workers' rights in the garment industries in Cambodia?
15	Do you know the top ten investing countries in Cambodian garment sector currently?  If so, could you please explain?
16	What are their main sources of investment capital?

17	What is the proportion of local investment in the garment sector in terms of investment capital?
18	Do you aware of the criteria (social and good governance) set up by the financiers on the investment credits/loans?  If so, please elaborate.
19	What are the financial transaction types between Cambodian suppliers and the international buyers?

Thank the key informant for sharing his/her views and opinions through this interview.

## ANNEX 2: FOCUS GROUP DISCUSSION



### RESEARCH ON THE ROLES AND EFFECTIVENESS OF INTERNATIONAL BUYERS AND FINANCIAL INSTITUTIONS IN ENHANCING ESG IMPLEMENTATION IN THE GARMENT INDUSTRY IN CAMBODIA

#### FGD QUESTIONS WORKERS OF GARMENT FACTORIES

Questions F1 to F7 are to be filled in by the FGD organizer/facilitator before starting the FGD.

Q. No.	Questions	Answers		
F1	Date of the FGD			
F2	Time of the FGD	Starting time: _____ Closing time: _____		
F3	Place of the FGD			
F4	Total number of participants			
F5	Category of participants	Male: _____ Female: _____ Indigenous: _____		
F6	Name, sex, age and number of years of working experience of the participants	Name & Sex	Age	No. of years of working exp.
		1.		
		2.		
		3.		
		4.		
		5.		
F7	Name of your garment factory			



**Instructions:**

Before starting the discussion, remember to introduce yourself and present the purpose of the FGD.

**Facilitator:** “We are conducting the FGD as a part of a research to assess the roles and effectiveness of international buyers and international financial institutions in enhancing the implementation of ESG principles in the garment industry in Cambodia. The discussion will take about 90 minutes. The research is intended to fill up the knowledge gaps and the results will be used for advocacy purposes.”

**Transition:**

“We are here to discuss about your understanding and experiences relating to the implementation of ESG principles in the garment industry in Cambodia with an emphasis on workers’ rights and women’s rights. We kindly request you to participate in the FGD. You are free to ask questions about possible risks and benefits, your rights as a volunteer, and about other aspects of the study which are not clear to you. We are seeking your experience and thoughts to help us better understand the implementation of ESG principles in garment factories in Cambodia.”

“Before going any further with this discussion, we would like to assure you that all your answers will remain strictly confidential. Your participation in this FGD is voluntary. You are free to refuse participation and may stop the discussion at any time or skip any questions that you do not wish to discuss. There is no right or wrong answer. It is fine if you disagree with someone else – we do not need everyone in the group to agree. We would like to listen to different opinions. The important thing is to give everyone a chance to participate to know what they think and why.”

During the time of your discussion, do you mind if we take notes? These will not be shared with anyone outside of our research team.

Do you have any questions?  
Is this a good time to start the discussion?  
Can we begin?

If the participants agree, begin the discussion by making the participants feel comfortable.

Q. No	Questions & Answers
1	What does ESG (Environmental, Social and Governance) mean to you?

2	<p>Is implementation of ESG in the garment sector important for Cambodia? Yes/No</p> <p>If yes, why?</p> <p>If no, why not?</p>
3	<p>What is the current situation of ESG implementation in garment factories in Cambodia?</p>
4a	<p>What are the important benefits of ESG implementation for workers in Cambodia?</p>
4b	<p>Probe: How have your rights been protected in your factory?</p>
5	<p>Do you think that protecting workers 'rights is important for the garment factories? Yes/No</p> <p>If yes, why?</p> <p>If no, why not?</p>

6	<p>Have you or any of your co-workers ever experienced the abuse of workers' rights in garment factories? Yes/No</p> <p>If yes, could you please explain in detail the kinds of abuse, when and in what context?</p>
7	<p>Is there any mechanism in place to prevent the abuse of workers' rights in your factory?</p> <p>Yes/No</p> <p>If yes, could you please explain in detail the types of mechanism in force as known to you?</p>
8	<p>In your experience, how effective is the implementation of prevention mechanism to prevent workers' abuse in your factory?</p>
9	<p>How actively is the government engaged in promoting workers' rights and women's rights in the garment sector in Cambodia?</p>

10	Have you ever aware of the participation of any NGOs in engaging financial institutions to promote workers' rights in the garment sector?
11	What are the crucial barriers/challenges to the promotion of workers' rights and women's rights in the garment sector in Cambodia?
12	What would you like to recommend to ensure that your rights have been well protected in your factory?

We thank all respondents for participating in the FGD.