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Environmental, social and governance (ESG) implementation in Nigerian companies: Legal foundation and practical challenges

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Abstract
Recently, financial performance alone is no longer regarded as the sole determinant of corporate value and business success. In response, Environmental, Social and Governance (ESG) principles have emerged as an important framework for evaluating corporate sustainability, managing non-financial risks, and promoting long-term value creation. ESG encompasses environmental stewardship, social responsibility towards employees, host communities and other stakeholders, and sound governance practices through effective board leadership, accountability, and oversight mechanisms. As global expectations for responsible corporate conduct continue to evolve, companies are increasingly expected to align their operations with ESG standards and sustainability objectives.
This article examines the legal and regulatory framework underpinning ESG practices in Nigerian companies and analyses the extent to which existing corporate governance and sustainability laws facilitate ESG implementation. It further evaluates the practical challenges to effective implementation, including the absence of a harmonised ESG regulatory framework, fragmented reporting standards, weak regulatory enforcement, resource and financial constraints, technological limitations, inadequate ESG data management, and infrastructural deficiencies. The article argues that although Nigeria's legal framework sparsely reflects emerging ESG principles, significant regulatory and institutional gaps continue to impede effective corporate sustainability outcomes. It concludes by proposing reforms to strengthen regulatory coherence, corporate accountability, and the institutionalisation of ESG practices in Nigeria. The article adopts the doctrinal research methodology, relying on the examination and analysis of both primary and secondary legal sources relevant to the subject matter under consideration.

Keywords: Environmental, social and governance (ESG), corporate governance, corporate sustainability, company law, Nigeria

Introduction

Environmental, Social and Governance (ESG) is premised on the notion that companies and businesses should consider environmental, social and governance factors when making business decisions and investments.[1] Essentially, it assesses a company's ability to achieve long-term success and profitability by implementing policies that balance financial value with broader social and ethical objectives.[2] With the rise of stakeholder activism and growing demand for sustainable operations by companies globally, the need for non-financial disclosure and corporate social responsibility through ESG reporting has intensified. In the sphere of corporate governance, ESG therefore, plays a crucial role in assisting companies to achieve profitable operations and ethical practices.[3] Companies are expected to act in a socially and ethically responsible manner and to mitigate the negative effects on the environment in which they carry out their business.[4] Thus, the environmental aspect of ESG evaluates the approach of a company with respect to stewardship towards the safeguarding of the natural environment.[5] The social aspect involves examining relationships with people – employees, host communities and other stakeholders. [6] Meanwhile, the governance aspect looks to the internal strategies and mechanisms of the company, such as leadership oversight, board accountability, board direction, diversity and shareholders' rights.[7]

In Nigeria, ESG is considered an integral factor in the initiatives to attain Sustainable Development Goals (SDGs) and long-term socio-economic growth. For this, various regulations and codes have been introduced to mandate companies and businesses to file reports on ESG reporting. For instance, the Financial Reporting Council of Nigeria's (FRCN) Code of Corporate Governance 2018 (CG Code 2018) is considered significant to ESG, as it requires the board to ensure that a company's annual reports include policies and strategies to avert environmental, social risks: the report must include highlights of sustainability policies, environmental protection and matters of general environmental, social and governance initiatives. [8] In 2023, the FRCN and the Nigeria Exchange Group Regulation Limited (NGX Reg Co.) launched the IFRS S1 & S2 Sustainability Disclosure Standards, making Nigeria the first African Country to adopt the International Sustainability Standard Board (ISSB) standards.[9] Although, it is thought that the rate of corporate environmental, social, and sustainability reporting is generally higher in countries with strong concentrations of large multinational enterprises, such as the USA, Japan, Germany, France, and the UK, compared with African countries, particularly Nigeria, where ESG concerns are still developing and gaining wider recognition.[10] Furthermore, sustainability disclosure practices are increasingly extending beyond traditionally high environmental-impact industries to include non-industrial and service-oriented sectors.[11]

This article examines the legal and regulatory structure governing ESG practices in Nigeria's corporate environment and the extent to which existing corporate and sustainability laws promote ESG implementation. It further evaluates practical challenges to implementation, including regulatory fragmentation, weak enforcement, limited disclosure obligations, and institutional and resource constraints. From the foregoing, this paper is divided into seven sections. Following this introduction, section two examines the concept of ESG by clarifying its meaning and scope. Section three analyses the legal and regulatory framework governing ESG implementation in Nigeria. Section four considers ESG practices and reporting by Nigerian companies. Section five discusses the practical challenges affecting effective ESG implementation in Nigeria. Section six proposes reforms aimed at strengthening ESG integration and institutional effectiveness in Nigeria. Finally, section seven concludes with a summary of the key findings and recommendations.

Understanding the Concept of Environmental, Social and Governance

ESG involves disclosing and reporting information about the practices of a company which directly or indirectly affect the environment, society and governance-related performance. [12] Put differently, ESG involves a set of standards used to ascertain a corporation's environmental and social impact, usually used by investors and the general public to make informed decisions about investing in a company. [13] The concept of ESG became popular in the 21 [st] century and is often associated with discourses on sustainability and corporate social responsibility (CSR).[14] Nevertheless, while sustainability and CSR operate more as philanthropic agendas or end goals, ESG is more real; it comprises real data and metrics needed to inform companies and investors about decision-making and investment choices.[15]

ESG is predicated on three key pillars: environmental, social, and governance. The environmental pillar refers to a corporation's impact on the environment and risk management strategies. These encompass direct and indirect greenhouse gas emissions, companies ensure resiliency against climate risk such as flooding, climate change and fire, including management stewardships in respect of natural resources. [16] The social pillar measures a corporation's relationship with the general public, communities, employees and stakeholders. Thus, some of the factors that a company may be assessed against include Human Capital Management (HCM) metrics like employees' fair wages, treatment and engagement. [17] The governance aspect looks to the internal corporate structure: the responsibility, duties and leadership oversight of the board of directors, and measures to protect shareholders' rights, effective audit.

ESG considerations offer an important platform through which businesses can evaluate the effects of their operations on the environment, the communities within which they function, and society more broadly, while establishing strategic objectives that align profitability with the broader aim of sustainable development.[18] Additionally, ESG principles enhance institutional resilience against non-financial threats capable of affecting long-term business sustainability, including climate change, migration pressures, and technological disruption.[19] This is because the early identification of emerging risks enables organisations to respond proactively and implement cost-effective mitigation measures.[20] Attention to environmental, social, and governance matters also enables businesses to project themselves as socially responsible entities committed to generating positive societal outcomes. Consequently, ESG considerations have increasingly become integrated into virtually all dimensions of corporate operations as companies reassess their objectives, strategies, and performance in response to evolving sustainability expectations.[21]

ESG reporting has become increasingly essential as a mechanism for evaluating the extent to which business organisations comply with environmental standards and laws. In today's business environment, long-term corporate success is no longer measured solely by financial outcomes; companies are also expected to demonstrate how their activities generate meaningful social and environmental value.[22] Through the disclosure of ESG-related information, organisations signal their commitment to ethical and sustainable business conduct while equipping stakeholders with the information necessary to make well-informed decisions.[23] As awareness and adoption of ESG practices continue to expand across the corporate sector, sustainability concerns present both strategic opportunities and potential risks that should be embedded within corporate planning and enterprise risk management frameworks.

Within the corporate context, sustainability involves generating economic returns while simultaneously recognising and balancing the interests of multiple stakeholders, including employees, consumers, host communities, and the natural environment.[24] Businesses that exhibit stronger ESG performance are thought to enhance shareholder value through effective risk management, anticipation of regulatory developments, and access to emerging market opportunities, while also advancing sustainable development in the communities where they operate.[25] In addition, ESG performance increasingly influences corporate reputation and brand strength, both of which have become valuable determinants of overall business success and long-term competitiveness.[26]

Legal and Regulatory Structure of ESG in Nigeria

The concept of ESG in Nigeria is still in its embryonic stages and not fully integrated into corporate laws; ESG implementation is not mandatory for all Nigerian companies. Consequently, Nigeria is yet to enact a national law specifically tailored to regulate ESG within the Nigerian corporate environment. Nevertheless, an examination of existing sustainability and climate laws and regulations governing various sectors of the economy indicates that ESG reporting has been somewhat envisioned. This section explores various state and federal laws prescribing provisions on ESG standards, divided into environmental, social and governance standards:

1. Environmental Standards

As illustrated above, the environmental pillar of ESG assesses how a corporation manages the effect of its activities on the natural environment. This comprises the use of renewable and non-renewable energy, waste management, greenhouse gas emissions, pollution levels, water utilisation, and expenditures relating to environmental protection. **[27]** Essentially, this looks at how firms mitigate environmental risk across their entire value chain. Under the Nigerian corporate law, as part of efforts to ensure effective corporate governance, environmental duties are sparsely stipulated by statutory provisions that impose responsibilities on companies and their directors. For instance, the Companies and Allied Matters Act 2020(CAMA 2020), being the primary company legislation in Nigeria, has prescribed notable ESG standards by placing responsibilities on directors to conduct the affairs of the company in the best interest of the company as a whole and to have regard to the effect of the company's activities on the environment in the community where it conducts business operations. [28] The provision does not, however, stipulate specific procedures and conditions on how to attain this; directors are granted wide discretion and empowered to determine the most effective means of fulfilling this obligation. This is problematic as it leaves companies with room to adopt inconsistent approaches, engage in selective compliance, or prioritise short-term commercial interests over broader governance and sustainability objectives. In the absence of clear statutory procedures, implementation may become largely dependent on the willingness and internal policies of individual companies rather than enforceable legal standards, thereby creating challenges for accountability, regulatory oversight, and the measurement of compliance outcomes.

Furthermore, under the Climate Change Act 2021(CCA 2021), firms are obligated to pursue reduced greenhouse gas emissions by promoting green growth and sustainable economic development in accordance with the carbon budget established by the Federal Ministries of Environment and National Planning (FMENP).[29] Furthermore, the Climate Change Act authorises the National Council on Climate Change to collaborate with the Federal Inland Revenue Service in developing an effective carbon taxation framework.[30] The objective of this mechanism is to deter carbon-intensive activities by imposing financial responsibility on carbon emitters for the environmental and economic costs associated with their emissions, while simultaneously creating revenue streams to support government-led investments in the transition to clean energy.[31] Additionally, the Ministry responsible for Finance, Budget, and National Planning shall ensure that all budget proposals submitted by MDAs are thoroughly assessed and properly costed to account for climate change considerations, and that sufficient funding is allocated to such proposals under the appropriate sub-heads in the annual budget. [32]

The Environmental Impact Assessment Act 1992 (EIA 1992) and the National Environmental Standard and Regulations Enforcement Agency Act 2004 (NESREA Act 2004) also stipulate environmental protection responsibilities for corporations carrying out projects in Nigeria. For instance, according to section 2 of the EIA 1992, public and private projects with potential impact on the environment must undergo a thorough environmental impact assessment before approval for commencement is granted. In view of this, companies are required to provide a detailed EIA report and submit it to NESREA for approval. In respect of companies operating within the oil sector, the Petroleum Industry Act 2021 (PIA 2021) further prohibits gas flaring and mandates operators to submit flare elimination and monetisation plans aimed at reducing greenhouse gas emissions and mitigating environmental harm.[33]

Principle 26 of the Nigerian Code of Corporate Governance (NCCG 2018), also mandates the board to have regard to sustainability issues, including environmental, social, and occupational and community health and safety, to ensure successful long-term business performance. In view of this, the board is required to implement key sustainability strategies and policies that include the most environmentally beneficial option, particularly for companies operating in disadvantaged regions or in regions with delicate ecology, in order to minimise the environmental impact of the company's operations. [34] Other environmental protection laws include the Harmful Waste (Special Criminal Provisions, etc) Act 1988, which requires companies to properly transit, convey and dispose of or retain harmful waste.

Despite foregoing statutory provisions, a survey carried out by KPMG' on ESG Sustainability Reporting consistently demonstrates that environmental sustainability reporting and implementation among Nigerian companies remains significantly below the levels observed in jurisdictions such as the United Kingdom, Japan, and South Africa, with many companies still providing limited environmental disclosures or reporting only where required by sector-specific regulations.[35] Similarly, the study also reveals that corporate sustainability in Nigeria has observed that ESG reporting remains largely voluntary outside regulated sectors and is often motivated by investor expectations, reputational considerations, or listing requirements rather than mandatory statutory obligations.[36]

It is also observed that environmental ESG practices in Nigeria are considerably more developed within industries whose operations have direct and substantial environmental impacts, particularly the oil and gas, mining, manufacturing, and extractive sectors.[37] Conversely, companies operating in sectors with relatively limited environmental footprints—such as professional services, retail, technology, education, and many privately owned enterprises—often exhibit lower levels of environmental ESG integration.[38] For many such organisations, environmental reporting remains minimal, largely because existing legislation does not impose comprehensive sustainability disclosure obligations, and regulatory enforcement remains relatively weak.[39]

2. Social Standards

The social aspect of ESG considers the well-being and relationship with the community, such as the employees, consumers, suppliers and all stakeholders that have direct or indirect dealings with the company. For example, some of the social measures that companies should implement include employee benefits, fair compensation, consumer protection, and health and safety standards. In respect to this, the Employee Compensation Act 2010 (ECA 2010) affords equitable compensation in cases of death, injury, disease or disability occurring during employment.[40] The Pensions Reforms Act 2014 (PRA 2014) also mandates contributory pensions schemes for companies with 3 or more employees[41] and, in special circumstances, for companies with fewer than 3 employees.[42] Furthermore, the Factories Act 1987 (FA 1987) also mandates standards for employees' health, safety and welfare,[43] while the Federal Competition and Consumer Protection Act 2018 (FCCP Act 2018) safeguards consumers' rights and promotes fair and ethical business practices. [44] Further to this, Industrial Training Fund 2011 (ITF 2011) requires that companies with 5 employees or more or those with N50 million or more in annual turnover must engage in promoting skill acquisition in industry and commerce and encourage management skill training for technical and entrepreneurial development.

While there is no dedicated ESG legislation, it is clear from the afore-mentioned laws that the social responsibilities of companies are strongly underpinned by a statutory framework that prescribes duties on companies and their directors to integrate social consideration into corporate decision-making and governance. Undoubtedly, ESG reporting for corporations appears to be more prominent in developed countries such as the United States of America (USA), Japan, the United Kingdom (UK), France, and Germany in comparison to Africa and especially in Nigeria, where ESG implementation is slowly gaining traction.[45] However, studies also show that ESG and sustainability reporting are gradually being integrated into the management and organisational structures of prominent companies in Nigeria. For instance, in 2023, Analysts' Data Services and Resources, a data and research company, published the results of the level of environmental, social and governance practices in Nigeria, and it was revealed that Access Holdings, Dangote Cement, GlaxoSmithKline Consumer Nigeria, PZ Cussons and Axa Mansard Insurance were the top five companies that got the highest Environmental, Social, and Governance (ESG) rating for 2023.[46]

A significant weakness revealed by the foregoing study is that meaningful ESG adoption in Nigeria remains largely concentrated among large, well-established corporations, while small and medium-sized enterprises (SMEs) are noticeably underrepresented. The companies recognised for their strong ESG performance are predominantly large listed entities with greater financial resources, sophisticated corporate governance structures, and dedicated sustainability functions. This suggests that ESG implementation has yet to permeate the broader Nigerian business landscape. Given that Nigeria's economy is overwhelmingly driven by micro, small and medium-sized enterprises (MSMEs), which constitute the vast majority of registered businesses, the limited adoption of ESG practices among these enterprises represents a major gap in the country's sustainability agenda. This disparity underscores the need for targeted regulatory support, capacity-building programmes, simplified reporting frameworks, and financial incentives to enable SMEs to integrate ESG principles into their operations and contribute meaningfully to sustainable economic development.

3. Governance Standards.

This aspect of ESG is founded on the traditional responsibilities of companies, encompassing directors' internal oversight functions, board accountability, and corporate transparency. Simply put, the governance pillar refers to how companies are directed and controlled.[47] It ascertains that the leadership incentives and strategies are aligned with the expectations of stakeholders.[48] It also looks at how shareholders' rights are protected and what type of internal mechanisms are in place to ensure transparency and accountability of the board.[49] In line with this, CAMA 2020 specifically stipulate relevant provisions to ensure board accountability and transparency. For instance, according to section 305(3) of the CAMA 2020, directors are required to ensure that they act at all times in what they believe to be in the best interests of the company as a whole so as to preserve its assets, further its business, and promote the purposes for which it was formed, and in such manner as a faithful, diligent, careful and ordinarily skillful director would act in the circumstances. Additionally, directors are accountable to the company for any secret profit made by themselves or any benefit derived by them contrary to the provisions of the CAMA 2020. [50] Consequently, directors must ensure that their interests do not conflict with any of their duties as directors of the company they manage.[51]

The CAMA 2020 is further embellished by the NCCG 2018, which applies to all public companies in Nigeria, and companies of varying sizes and complexities across industries.[52] As far as board effectiveness is concerned, the code suggests that the exercise of leadership, enterprise, integrity and judgment in its oversight and control of the company to achieve continued survival, the board and its committees must act in the best interest of the company at all times; be accountable to the company as well and identify and manage the relationship with shareholders and other stakeholders.[53] In respect of transparency and disclosure, NCCG 2018 requires full and comprehensive disclosure of all matters material to investors and stakeholders to ensure proper monitoring of its implementation, which promotes good corporate governance practices.[54] For this, the board is expected to ensure that the company's annual reports provide clear information on the company's governance structure, policies and practices as well as environmental, social, risk and opportunity. [55] The provision of real-time information and data enables stakeholders and investors to make informed investment decisions promptly and with greater confidence.[56]

Pertinently, the report must also include evaluation process for the board, its committees and individual directors as well as the assessment of the corporate governance practices in the company; and the description of the roles and responsibilities of the board committees and how the committees have discharged those responsibilities; highlights of sustainability policies and programmes covering social issues such as corruption, community service, including environmental protection, serious diseases and matters of general environmental, social and governance (ESG) initiatives.[57] Undoubtedly, these provisions are significant to ESG, as they ensure that company directors adopt best practices that will further the company's long-term interests and sustainability goals. However, the major weakness of the code of corporate governance in Nigeria, as identified by some researchers, lies in its voluntary nature. [58] While the Code adopts a "Comply and Explain" approach, its principles operate as recommended standards of good corporate governance rather than mandatory legal obligations.[59] Consequently, under this model, companies could depart from the Code's provisions provided they disclose and justify their non-compliance, meaning that failure to comply does not necessarily attract regulatory sanctions.[60] While this approach promotes flexibility and allows companies to adopt governance practices suited to their operational circumstances, it weakens accountability and effective implementation. Thus, companies may provide generic explanations for non-compliance without embracing the underlying governance objectives, thereby limiting the Code's ability to achieve consistent corporate governance standards across organisations.

4. ESG Practices in Nigerian Companies

ESG good practices are significant for corporate governance in Nigeria, as they promote transparency, accountability, and ethical oversight within corporate structures. It is believed that via strategic ESG disclosures, corporations can provide stakeholders with insight into social responsibility plans, environmental risk management, and board structure, size, anti-corruption and internal control mechanisms.[61] Furthermore, an increased level of transparency minimises information imbalance between management and stakeholders, strengthens the oversight role of the board, and curbs opportunistic managerial conduct.[62] By embedding sustainability indicators into governance structures, ESG reshapes corporate governance from a mere compliance-oriented framework into a forward-looking system that promotes accountable decision-making and sustainable long-term value generation.[63]

In line with the global objective to establish a robust ESG reporting, a considerable number of Nigerian companies are gradually reporting their ESG practices through different platforms, such as the annual reports, Corporate Social Responsibility (CSR) and ESG reports. [64] For instance, the 2023 report by Analysts' Data Services and Resources revealed that, among the companies surveyed for ESG reporting practices, the average ESG score increased from 36.66 per cent in 2022 to 37.40 per cent in 2023.[65] Furthermore, the report indicated that the highest average ESG score was recorded by Access Holdings (73), followed by Dangote Cement (71), GlaxoSmithKline (66 per cent), PZ Cussons (65 per cent), and Axa Mansard Insurance (64 per cent).[66] Although the overall average score clearly demonstrates that only a minor improvement has been seen over the last year, and that the average score of Nigerian companies is still below 50 per cent, and not up to mid-level.[67] Companies with lower performance include, Abbey Mortgage Bank (47 per cent), Stanbic, Cap Plc, Cornerstone Insurance, and Guinea Insurance, which scored 46 per cent respectively. [68]

Over the years, efforts have been made by various regulatory bodies to promote the notion of sustainability reporting in Nigeria and to support the attainment of the Sustainable Development Goals (SDGs). For instance, in 2012, the Central Bank of Nigeria (CBN) introduced the CBN Sustainable Banking Principles. These principles require banks and other financial institutions to identify, evaluate, and mitigate environmental and social risks associated with their financing and investment operations.[69] They further promote transparency by encouraging financial institutions to disclose and communicate their sustainability outcomes and overall impact, while also fostering diversity and inclusion initiatives aimed at correcting the observable gender disparity within boards of directors and senior management positions.[70] Additionally, the Securities and Exchange Commission's Guidelines on Sustainable Finance Principles for the Nigerian Capital Market 2021 (SEC Sustainable Finance Principles 2021), have also transformed ESG reporting and consideration from a voluntary corporate social responsibility goal to a systematised governance responsibility, particularly for publicly held companies and capital market operators. [71] The principles promote active stakeholder participation and institutional capacity development while encouraging responsible investment and financing practices that support environmentally sustainable sectors, particularly green finance initiatives.[72] They also strengthen the advancement of human rights and gender equality through policies that foster equal pay, prohibit discrimination, and enhance women's economic participation and empowerment. [73] Significantly, the principles require annual ESG disclosures, either through a standalone sustainability report or as part of annual financial statements, ensuring transparent reporting supported by defined objectives, comprehensive disclosures, and measurable performance indicators in accordance with recognised reporting frameworks.[74] To ensure integration of sustainability reporting by companies in Nigeria, the Nigerian Stock Exchange (NSE) (now Nigeria Exchange Group(NGX)) introduced the Sustainable Disclosure Guidelines 2018, mandating firms to submit a sustainability report to the NSE within the period permitted for filing a company's annual returns.[75] In respect of this, companies are expected to also get their reports independently verified against international standards in order to increase the credibility of the report by establishing that the information is accurate.[76]

Despite the regulatory efforts, a study conducted by KMPG on the top 100 registered companies in Nigeria by revenue indicated that Nigeria's sustainability reporting declined by 7% between 2020 (85) and 2022 (78). According to Onfonye, this decline is a result of the inadequate disclosure of the sustainability performance of companies that appeared on the 2022 N100 list.[77] In comparison with their counterparts, other countries such as the UK, the United States, and China were considered to have significantly higher sustainability reporting rates between 2020 and 2020.[78] For instance, the United Kingdom scored 93% in its sustainability reporting, while Nigeria scored 55%.[79] In particular, South Africa has consistently had a higher ESG and sustainability reporting score than Nigeria and has exceeded 90% in the last 10 years.[80] With regard to sustainability information in annual financial reports in 2022, the survey revealed that only 55 of the Nigerian N100 companies reported sustainability-related information in their financial reports, which is 50% lower than the global N100 average of 60%.[81] In this category, South Africa and the United kingdom scored 95% and 93% respectively.[82]

The low ESG and sustainability reporting in Nigeria is also generally attributed to the fact that there is no national legislation in Nigeria expressly prescribing provisions for ESG regulation, reporting and compliance by companies in Nigeria. [83] Consequently, there is a lack of uniformity in the reporting framework. [84] It is, however, envisioned that there would be an increase in ESG activities in Nigerian companies where mandatory sustainability goals and ESG practices are codified into legislation.[85] The absence of a comprehensive legal framework has created several challenges, including inconsistent disclosure practices, difficulties in measuring and comparing ESG performance across companies, thereby leading to weak enforcement and limited accountability.[86] This has also contributed to low awareness and inadequate institutional capacity for ESG implementation among some organisations.[87] In a nutshell, the voluntary nature of existing sustainability initiatives could discourage widespread adoption and reduce investor confidence due to concerns over transparency and the reliability of reported ESG information.

Challenges to ESG Implementation in Nigerian Companies

While the benefits of ESG implementation are increasingly recognised in Nigeria, companies continue to encounter significant legal, institutional, and operational challenges in integrating ESG principles into their corporate governance and reporting practices. Key obstacles include the absence of a comprehensive and harmonised ESG regulatory framework, fragmented reporting standards, weak regulatory enforcement, resource and financial constraints, technological limitations, inadequate ESG data management systems, and infrastructure deficiencies. Collectively, these challenges undermine effective ESG implementation, reduce the quality and comparability of sustainability disclosures, and impede the achievement of long-term corporate sustainability objectives. These issues are examined in detail below:

1. Resources and Financial Constraints

Resource limitations constitute a significant impediment to ESG implementation and reporting. Small and medium-sized enterprises (SMEs), in particular, face considerable financial and operational challenges in meeting ESG reporting requirements, including the costs of recruiting specialised personnel, engaging external consultants, and deploying appropriate reporting systems.[88] Unlike multinational corporations, many indigenous firms operate with constrained financial resources and are therefore less able to allocate funding to non-core compliance and sustainability initiatives.[89] As a result**,** it is opined that many Nigerian companies are not fully aware of the concept of ESG, and those with awareness are not fully prepared for its adoption or reporting frequently due to financial constraints.[90] The rate of ESG reporting is considered very low, even in recent years. For example, in a 2026 research conducted by the International Labour Organisation (ILO) on the ESG adoption rate in Nigeria, among the 160 respondent companies surveyed in the study, it was discovered that about 40% are not yet measuring or reporting ESG; 21% only report to internal management; just 16% produce integrated reports, while 23% publish annual sustainability reports in line with NGX's Guidelines.[91] Furthermore, among the Small and Medium Enterprises (SMEs), 61 indicated that they are not yet reporting ESG, and only 8% published scanty and incomplete sustainability reports.[92] The study also shows that readiness rate for the adoption of ESG strategies is low for most companies: 28% reported advanced integration, 28% are in early planning, 28% are moderately implementing ESG, and 17% still have low readiness. [93]

2. Absence of a Comprehensive ESG Regulatory Framework

The lack of a unified and standardised ESG reporting framework, supported by a robust enforcement mechanism, remains one of the principal challenges to effective ESG reporting in Nigeria.[94] At present, ESG-related disclosure obligations are dispersed across various regulatory instruments issued by different regulatory bodies, including the NGX, the SEC, the CBN, and the FRCN. [95] While these institutions have introduced sustainability and corporate governance requirements that encourage ESG reporting, the applicable standards differ in scope, content, and reporting expectations, resulting in a fragmented regulatory landscape.[96] It is argued that regulatory fragmentation has created uncertainty concerning the applicable reporting standards, the extent of required disclosures, and the appropriate methodology for ESG reporting.[97] Consequently, companies often adopt inconsistent reporting approaches, making it difficult for investors, regulators, and other stakeholders to compare ESG performance across organisations. The absence of a single harmonised reporting framework may also enable selective or superficial disclosures, with companies choosing the most convenient reporting standards rather than those that provide comprehensive and meaningful ESG information.

3. Weak Enforcement

Furthermore, the effectiveness of the existing ESG reporting regime is undermined by weak regulatory enforcement and minimal statutory penalties.[98] Although several ESG-related guidelines and corporate governance codes impose reporting expectations, many of these instruments apply mainly to listed companies and are voluntary for private or SMEs.[99] As a result, there is little regulatory incentive for unregulated companies to produce complete, accurate, and consistent ESG disclosures.[100] A weak enforcement environment diminishes the credibility and reliability of ESG reports and contributes to varying levels of compliance among Nigerian companies. It is apposite at this juncture to state that Nigeria needs to adopt a harmonised ESG reporting framework accompanied by effective enforcement mechanisms. Such a framework would promote consistency in ESG reporting, enhance compliance, and provide greater regulatory certainty for reporting entities.

4. Infrastructure Deficits

Inadequate infrastructure remains a major impediment to effective ESG implementation in Nigeria and across many African countries. While companies may adopt internal sustainability policies and commit to reducing their environmental footprint, the absence of reliable public infrastructure significantly undermines these efforts. One of the most pressing challenges is the persistent inadequacy of electricity supply, which compels many businesses to rely on diesel- and petrol-powered generators to sustain their operations.[101] This dependence increases greenhouse gas emissions, air pollution, and operational costs, making it difficult for companies to achieve carbon reduction targets and transition to cleaner energy sources.[102] Similarly, poor transport infrastructure, including deteriorating road networks, traffic congestion, and inefficient logistics systems, contributes to higher fuel consumption and emissions, thereby frustrating efforts to develop sustainable supply chains and environmentally responsible business operations.[103]

In addition, inadequate waste management and recycling infrastructure further limit the ability of companies to implement circular economy initiatives and responsible waste disposal practices.[104] Many businesses incur substantial costs in establishing private waste management systems or engaging specialised service providers due to the absence of adequate public facilities. These infrastructural deficiencies force companies to divert significant financial resources towards addressing basic operational challenges, leaving fewer resources available for broader ESG initiatives, innovation, and sustainability investments.[105] Consequently, the effectiveness of ESG implementation depends not only on corporate commitment but also on sustained government investment in reliable energy, transport, waste management, and other critical infrastructure that enables businesses to achieve meaningful environmental and sustainability objectives.

5. Technological Constraints and Poor ESG Data Management

Technological constraints, including inadequate data availability and poor ESG data management systems, constitute another significant obstacle to effective ESG implementation and sustainability reporting in Nigeria.[106] High-quality ESG reporting depends on the systematic collection, analysis, verification, and disclosure of accurate environmental, social, and governance data. However, many Nigerian companies continue to rely on outdated technologies, fragmented reporting processes, and poorly maintained data collection systems, making it difficult to generate reliable ESG information. [107]As a result, organisations often struggle to monitor key sustainability indicators such as greenhouse gas emissions, energy consumption, waste management practices, employee welfare, workplace diversity, and occupational health and safety performance.[108]

Technological deficiencies also undermine the accuracy, consistency, and credibility of ESG disclosures.[109] Inaccurate, incomplete, or unverifiable data may result in misleading sustainability reports that fail to provide investors, regulators, and other stakeholders with a true assessment of a company's ESG performance. The challenge is further compounded by the absence of uniform ESG reporting metrics and standardised data collection methodologies across industries, making it difficult to compare corporate sustainability performance or benchmark Nigerian companies against international best practices.[110] Consequently, the inability to collect, manage, and report reliable ESG data continues to impede effective sustainability reporting, particularly among small and medium-sized enterprises and companies operating in sectors where digital reporting infrastructure remains underdeveloped.

Recommendations

1. Enact a Comprehensive ESG Legislative Framework

In light of the fragmented regulatory framework for sustainability reporting in Nigeria, there is a need to enact a comprehensive national legal framework governing ESG implementation and reporting. Rather than relying on fragmented sectoral regulations and voluntary guidelines, Nigeria should adopt dedicated legislation that harmonises ESG obligations across industries, clearly defines reporting standards, establishes minimum disclosure requirements, and prescribes compliance obligations for companies based on their size, public interest status, and sector. Such legislation should incorporate internationally recognised sustainability reporting standards, particularly the ISSB Standards, while taking into account Nigeria's economic and developmental realities.

2. Enhanced Regulatory Coordination and Enforcement

Regulatory coordination and enforcement should be significantly strengthened. The FRCN, SEC, NGX, CBN, and other sector-specific regulators should collaborate to develop a unified ESG reporting framework that eliminates duplication and inconsistencies. In addition, regulatory bodies should establish effective monitoring and enforcement mechanisms, conduct periodic compliance assessments, and impose proportionate sanctions for material non-compliance or misleading ESG disclosures. Stronger enforcement would improve the credibility of ESG reporting, discourage selective disclosures and greenwashing, and promote greater accountability among companies.

3. Improve Institutional Capacity and Support for Businesses

Government agencies, professional bodies, and industry associations should implement continuous capacity-building initiatives to improve ESG awareness and technical expertise. Regular training programmes, technical guidance, and public awareness campaigns would assist companies in understanding their ESG obligations and reporting requirements. Particular attention should be given to small and medium-sized enterprises (SMEs), which often lack the financial and technical resources required for ESG implementation. To encourage compliance, the government should also introduce incentives such as tax reliefs, grants, sustainability-linked financing, concessional loans, and technical assistance for businesses investing in ESG systems, renewable energy, and sustainability reporting.

4. Robust Corporate Governance and Internal ESG Structures

Companies should integrate ESG considerations into their corporate governance frameworks rather than treating sustainability as a standalone compliance exercise. Boards of directors should assume greater responsibility for ESG oversight by establishing dedicated sustainability or ESG committees where appropriate, incorporating ESG risks into enterprise risk management systems, and ensuring that sustainability objectives form part of corporate strategy and board performance evaluations. Companies should also invest in reliable internal systems for collecting, verifying, and reporting ESG data to improve the quality, consistency, and comparability of sustainability disclosures.

5. Invest in Sustainable Infrastructure and Clean Energy

Sustained public investment in critical infrastructure is essential for effective ESG implementation. The government should prioritise improvements in electricity generation and distribution, renewable energy infrastructure, transportation networks, waste management systems, and recycling facilities to reduce the structural barriers that impede corporate sustainability efforts. Reliable infrastructure would reduce dependence on fossil-fuel-powered generators, lower business operating costs, and enable companies to adopt cleaner technologies and more sustainable operational practices. Since many environmental challenges stem from deficiencies beyond the control of individual companies, government investment in sustainable infrastructure should complement private-sector ESG initiatives and facilitate the achievement of national sustainability objectives.

6. **Strengthen Technological Capacity and ESG Data Management Systems**

To improve the quality and reliability of ESG reporting in Nigeria, both the government and the private sector should prioritise investment in digital infrastructure and modern ESG data management systems. Companies should establish integrated internal reporting frameworks capable of collecting, monitoring, analysing, and verifying ESG data in accordance with internationally recognised reporting standards. The adoption of digital reporting platforms, automated data collection systems, and appropriate ESG management software would improve the accuracy, consistency, and comparability of sustainability disclosures while facilitating independent assurance and regulatory oversight.

Furthermore, regulatory agencies should issue sector-specific guidance on ESG data collection methodologies and reporting metrics to promote consistency across industries. Capacity-building programmes should also be organised to equip directors, management, sustainability officers, and compliance personnel with the technical skills required for effective ESG data management and reporting. By strengthening technological infrastructure and improving data governance, Nigerian companies will be better positioned to produce credible ESG disclosures, enhance stakeholder confidence, and meet evolving domestic and international sustainability reporting expectations.

Conclusion

ESG considerations have become an indispensable component of modern corporate governance, reflecting the growing expectation that companies should create sustainable long-term value while remaining accountable to shareholders, employees, host communities, and the environment. Although Nigeria has not enacted a comprehensive statute specifically regulating ESG, the article demonstrates that several legislative instruments, corporate governance codes, sustainability guidelines, and sector-specific regulations collectively provide a legal foundation for the integration of ESG principles into corporate operations. These instruments demonstrate a gradual shift from traditional profit-oriented corporate governance towards a broader stakeholder-centred approach that recognises environmental stewardship, social responsibility, and sound governance as essential elements of sustainable business practice.

Notwithstanding these developments, the implementation of ESG in Nigeria remains constrained by significant legal, institutional, and practical challenges. Fragmented regulatory framework, weak enforcement mechanisms, limited financial and technical capacity, inadequate infrastructure, and the absence of a harmonised reporting standard continue to impede effective ESG compliance and sustainability reporting. Consequently, ESG implementation remains inconsistent across companies and industries, thereby limiting the comparability, reliability, and usefulness of sustainability disclosures.

As global investors, financial institutions, and consumers increasingly incorporate ESG performance into investment and commercial decisions, Nigerian companies can no longer regard ESG merely as a voluntary corporate social responsibility initiative. Rather, ESG should be embedded within corporate strategy, governance structures, and enterprise risk management as a means of enhancing resilience, promoting responsible business conduct, and strengthening long-term competitiveness. Achieving this objective will require comprehensive legislative reform, stronger regulatory coordination and enforcement, increased institutional capacity, improved corporate governance, and sustained investment in critical infrastructure. By addressing these challenges, Nigeria will be better positioned to develop a coherent ESG ecosystem that promotes corporate accountability, attracts sustainable investment, advances the sustainable development goals, and contributes to inclusive and environmentally responsible economic growth.

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