The Realities of ESG Reporting and Disclosure Challenges in Pakistan's Economy

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Recently, Environmental, Social, and Governance (ESG) reporting has progressed from a niche corporate responsibility practice to a keystone of global investment decisions and sustainability commitments of organizations worldwide. There is increasing emphasis on ESG compliance and disclosures with every passing day.

ESG is a term widely used in today's ever-changing world to describe the numerous non-financial aspects that have the power to influence the performance of an organization in the long term. In a way, ESG is a set of standards or measures used to assess the impact of a business or an organization on society and the environment, and also indicates the intensity of that impact, that is, how transparent and accountable the impact is.

ESG factors referred as Environmental, Social and Governance, also affect the sustainability of the societies in which we live and our planet Earth over a long-term horizon. Environmental issues like noise pollution, extreme climate changes, wildlife preservation, and air pollution are often included in ESG discussions, along with social considerations such as high unemployment rates and wage inequality within the same class of labour, whether skilled, semi-skilled, or unskilled. Governmental authorities play an important role in ESG by regulating policies related to labour and the environment within a given society.

Key Elements of ESG

- **Environment:** Environmental issues include extreme weather events such as heat waves, drought, and flooding caused by natural disasters like cyclones, twisters, and storms; changes in biodiversity, including fungi, plants, and microorganisms, due to deforestation and illegal hunting of endangered wildlife; and loss of wildlife and human life. Events damaging the atmosphere, particularly the ozone layer, are also key environmental concerns.
- **Social:** Social issues include underprivileged conditions for labour, child and bonded labour, unsafe or harmful working environments, low or non-existent compensation, and human rights violations against peaceful protestors. These issues are particularly observed in chemical and other high-risk industries.
- **Governance:** Governance issues include information asymmetry, bribery in governmental departments, price-fixing among competitors, and restrictions on citizens' voting rights. Such issues are especially significant in industries managing hazardous waste or sensitive environmental concerns.

ESG is increasingly seen as an extension of CSR, and in some sectors, even more important. ESG disclosures provide stakeholders, including shareholders, investors, civil society, regulators, customers, and lenders, with information on how organizations manage environmental impacts, social responsibilities, and governance risks.

Implementing ESG reporting in Pakistan's unique economic and institutional environment presents challenges. These challenges will be explored through real-life scenarios, national economic data, and practical examples, demonstrating why ESG reporting remains both essential and complex in the local context.

Why ESG Matters in Pakistan

Before discussing the challenges, it is important to understand the context of Pakistan's economy as of 2025:

- Nominal GDP of Pakistan is approximately USD 410.5 billion, with a real growth rate of around 2.7% *(Source: Reuters Economic Survey)*, reflecting a modest but fragile recovery from economic turbulence in recent years. In FY2024, the rate of unemployment was around 8% *(Source: IMF Country Indicators)* across all types of labour, while inflation (CPI- Consumer Price Index) average was nearly 4.5%, indicating a controlled level of household purchasing power.

- Export earnings are near USD 40.7 billion, with a large share coming from textiles and food products, while imports remain considerably higher, highlighting trade imbalance pressures on the economy. Both external and domestic debt continue to be pressing constraints, significantly influencing fiscal policy and corporate financing decisions.
- Pakistan also ranks low on environmental, social, and governance indices, as reflected in poor air quality in major cities, water scarcity issues, and overall institutional effectiveness, all of which highlight sustainability concerns.

In an economy characterized by these facts and figures, ESG reporting is not a luxury; rather, it is a necessity for building resilience against uncertain factors, expanding market reach, and maintaining competitiveness in the long run.

ESG Reporting in Pakistan: Challenges and Way Forward

Key Challenges

1) **Data Limitations:** ESG reporting relies heavily on robust data, which many organizations often lack. Organizations in Pakistan typically depend on manual tracking, decentralized records, and weak verification systems. As a result, ESG disclosures are often inconsistent or unreliable.

2) **Short-Term Economic Focus:** The macroeconomic landscape of Pakistan, characterized by trade imbalances, inflation pressures, and high debt servicing demands, often leads organizations to prioritize short-term profitability over long-term investments in sustainability.

3) **Limited Awareness:** For many Pakistani firms, particularly small and medium enterprises, ESG compliance is often seen as corporate philanthropy or CSR rather than a strategic risk management activity. Without proper awareness, companies struggle to understand why ESG reporting and compliance matter beyond basic regulatory requirements.

4) **Lack of Standardized ESG Frameworks:** Another challenge is the absence of comprehensive, mandatory ESG standards at the national level. While regulators such as SECP have issued voluntary disclosure guidelines *(Source: https://www.secp.gov.pk/document/secp-esg-disclosure-guidelines-for-listed-companies/)* a unified enforcement mechanism is still developing, leading to variations in how disclosures are prepared and interpreted.

Steps Forward

1) **Regulatory Guidelines and ESG Platforms:** The Securities and Exchange Commission of Pakistan (SECP) hosts a collaborative ESG platform and periodically issues voluntary disclosure guidelines, providing a foundation for improved data availability and transparency.
(Source: https://www.secp.gov.pk/document/secp-esg-disclosure-guidelines-for-listed-companies/)

2) **Capacity Building and Industry Initiatives:** Industry collaborations, such as ESG training programs initiated by WWF-Pakistan, help build corporate capacity in sustainability reporting through workshops and events that emphasize the importance of ESG factors.

3) **Alignment with Global Standards:** The phased implementation of IFRS Sustainability Disclosure Standards (IFRS S1 & S2) demonstrates Pakistan's commitment to global ESG best practices, though transitional challenges remain.

Conclusion

ESG reporting in Pakistan is at a critical stage, representing both a strategic opportunity and a complex challenge. For private sector organizations, improving awareness of ESG factors, strengthening data systems, and enhancing governance frameworks are essential. For regulators and policymakers, synchronized standards, effective implementation mechanisms, and capacity-building initiatives will determine whether ESG moves from aspirational statements to measurable impact.

By understanding and addressing these critical challenges, organizations in Pakistan can enhance credibility, strengthen investor confidence, and support sustainable economic progress—shaping the competitive business landscape of the future.

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