Is the Cost of Corporate Debt Influenced by ESG Factors? Evidence from the EMEAP Region

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Summary

Motivated by the rapidly growing corporate bond market in the EMEAP region, and the lack of studies in understanding the financial impact of Environmental, Social and Governance (ESG) practices on firms in emerging markets, this paper attempts to explore the relationships between firms' debt funding costs and their ESG performances by analysing the bond data of listed companies in the region from 2008 to 2019. Our empirical analysis confirms that (1) sound ESG practices by corporates could have a long-term cost reduction effect on their debt funding; (2) the effect on cost reduction is more evident for firms in high greenhouse gas emission sectors and during market turbulence, and; (3) the country-level ESG performance plays a role only since the adoption of the Paris Agreement in 2015. Our study has three implications for firms and governments in the region. First, ESG-related risks have recently

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emerged in investors’ concerns and need to be closely monitored as firms with relatively weak ESG scores are facing higher cost in funding their debts. Second, governments may consider further promoting sound ESG practices as both country-level and firm-specific ESG performances play a role in reducing firms’ debt-funding costs. Third, with market participants starting to price-in firms’ ESG risks in their investment, the lack of consistent and comparable ESG data could be a source of vulnerability itself, as disorderly adjustments might occur when pricing in ESG-related vulnerabilities. Therefore, government efforts on global initiatives aimed at strengthening international ESG reporting standards and promoting consistent ESG score methodology are vitally important.