

ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) performance on the cost of debt and capital structure, proxied by leverage, of manufacturing companies listed on the Indonesia Stock Exchange during the period 2021–2024. In addition to testing the effect of the overall ESG score, this study also examines the individual effects of each ESG pillar — environmental performance, social performance, and governance performance — on both dependent variables.

This study employs a quantitative approach using panel data regression analysis. The sample consists of 20 manufacturing companies selected through purposive sampling based on the availability of complete ESG data on the Bloomberg Terminal during the 2021–2024 period, yielding 80 observations after the data screening process. The best estimation model was determined through the Chow Test, Hausman Test, and Lagrange Multiplier Test, resulting in the Fixed Effect Model for the cost of debt models and the Random Effect Model for the leverage models. Control variables for the cost of debt models include ROA, interest coverage ratio (ICR), tangibility, liquidity, and leverage, while the leverage models use ICR and liquidity as control variables.

The results show that ESG performance has a significant positive effect on cost of debt, indicating that higher ESG performance is associated with higher borrowing costs among Indonesian manufacturing companies. ESG performance shows a negative effect on leverage in the model without control variables; however, this effect becomes insignificant once firm-level financial characteristics are controlled for. At the pillar level, only social performance has a significant positive effect on cost of debt after control variables are included, while environmental and governance performance show no significant effect. All three ESG pillars show no significant effect on leverage in either model specification.

These findings suggest that in the context of Indonesian manufacturing companies as an emerging market, ESG has not yet been fully perceived by creditors as a signal of reduced credit risk. Financial factors such as interest coverage ratio and liquidity prove more dominant in explaining cost of debt and leverage decisions than ESG performance. This study contributes to the literature on ESG and corporate financing by demonstrating that the effectiveness of ESG as a cost of capital reduction mechanism is context-dependent and has not been consistently realized in emerging market settings.

Keywords: *ESG, Environmental Performance, Social Performance, Governance Performance, Cost of Debt, Leverage, Capital Structure, Panel Data Regression*