

# The Influence of Environmental, Social and Governance (ESG) on Debt Costs in Companies Energy Sectors Listed on the IDX

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## Abstract

*This study aims to examine the Effect of Environmental, Social, and Governance (ESG) on the Cost of Debt in Energy Sector Companies Listed on the IDX "The population in this study uses all energy sector companies listed on the Indonesia Stock Exchange. The following is a list of 87 energy sector companies listed on the IDX in 2024. Data analysis in this study uses the panel data regression analysis method with the help of EViews version 13 statistical software. This software was chosen because of its superior capabilities in handling panel data, statistical testing, and interpretation of regression results. The results of the study show that environmental (EVM) and Social (SCL) have a negative and significant effect on the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange in 2020-2024. Governance (GVN) has a positive and significant effect on the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange in 2020-2024.*

**Keywords:** environmental, social, governance, cost of debt, BEI

## 1. Introduction

Environmental, Social, and Governance (ESG) issues are now a serious concern in the global business world, as various sustainability issues that cannot be resolved through financial approaches alone increase. The significant global attention to these issues is reflected in data from the Principles for Responsible Investment Association (2020), which recorded a significant increase in ESG-based investments from US\$20 trillion in 2010 to US\$100 trillion in 2020. This indicates that investors and creditors worldwide now use ESG performance as a primary benchmark in assessing a company's risk and financing viability (Yudha F & Rahman, 2024).

The Indonesian government has proactively created conditions and supporting elements to facilitate the transition to ESG compliance. The Financial Services Authority (OJK) issued regulation POJK No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, which became effective in 2020. This regulation requires public companies to disclose ESG implementation in their sustainability reports.(Johan J & Susanto, 2025).

ESG is a non-financial indicator that includes aspects of social sustainability and corporate governance capabilities which are now a major concern for stakeholders, including creditors, in assessing an organization's financial risk. (Fibrianti & Tyas, 2025)The ESG trend is in the spotlight because environmental, social, and governance issues are relevant to the wider public interest, such as climate change, workplace safety, and the prevention of fraudulent practices in companies, coupled with government encouragement to achieve sustainability goals.(Jedidyah Johan & Susanto, 2025).

Previous research conducted by(Puspita & Hasnawati, 2025)found that ESG disclosure negatively impacted the cost of debt in manufacturing and energy companies listed on the Indonesia Stock Exchange for the 2019-2023 period, indicating that creditors view ESG disclosure as a risk mitigation tool and can reduce information asymmetry between creditors and management.(Sidi Rai & Ismawati, 2024)The results show that of the three ESG dimensions, only social disclosure scores have a negative and significant effect on debt costs, while environmental and governance disclosure scores do not significantly influence manufacturing companies listed

on the IDX during the 2014-2021 period. Contrary to these findings, (Roudotul & Purwanto, 2024) *Environmental and Social* disclosure has a negative but insignificant effect, Governance disclosure has a negative but significant effect and Profitability has a negative but insignificant effect on Cost of Debt. Then, (Eliwa et al., 2021a) found a significant negative relationship between ESG practices, both performance and disclosure, and the cost of debt in companies across 15 European Union countries, indicating that lenders actively consider ESG information in their credit decisions. The differences in these research results indicate that the relationship between ESG and the cost of debt remains inconsistent and is influenced by various factors, including the ESG dimensions measured, industry characteristics, the study period, and prevailing macroeconomic conditions.

The energy sector in Indonesia is undergoing a transformation towards renewable energy but is still highly dependent on fossil fuels, creating complex dynamics in ESG implementation. Considering the complexity of the energy sector, which includes high capital intensity, significant environmental risks, strict regulations, and the ongoing energy transition, the study entitled "The Effect of Environmental, Social, and Governance (ESG) on Debt Costs in Energy Sector Companies Listed on the IDX" is very important to conduct to provide empirical insight into the effectiveness of ESG investments in reducing financing costs in this strategic sector.

## **2. Literature Review**

The term ESG was first formally used in the United Nations Global Compact's "Who Cares Wins" report in 2004. This report was produced through a collaboration between international financial groups and the UN with the aim of incorporating environmental, social, and governance factors into investment and business decision-making. Since then, ESG has evolved rapidly as a way to measure a company's sustainability and ethical performance. International rating organizations such as MSCI, Thomson Reuters, Bloomberg, and Sustainalytics have developed methods for assessing ESG scores. ESG scores are now crucial for investors and lenders in evaluating a company's non-financial risks and future prospects, particularly in sectors like energy that have significant environmental and social impacts. These scores combine performance data from the three key areas of environmental, social, and governance into one overall score, making it easier for stakeholders to compare the sustainability of different companies.

The Environmental aspect of the ESG score assesses how a company's operations impact the environment. Companies are expected to manage their environmental impacts, such as by controlling carbon emissions, managing waste, and using energy more efficiently. As mentioned by (Aydoğmuş et al., 2020) More and more companies are investing in sustainable practices, such as using renewable energy, to reduce their carbon footprint and meet stakeholder expectations. Important environmental factors include greenhouse gas emissions and the carbon footprint of daily operations. Companies with lower emissions or robust programs to reduce emissions tend to score higher. Energy use and efficiency are also key factors, especially for energy companies that need to use resources wisely in their production processes.

The Social aspect of the ESG score assesses how a company interacts with its stakeholders, such as workers, communities, and other parties. This includes issues such as human rights, how safe and fair the work environment is, and how the company supports local communities. In today's global business world, investors are highly concerned about the fair treatment of workers, support for communities, and how actively a company is involved in society. (Eccles & Youmans,

2015) One of the key aspects measured in the Social section is occupational health and safety, which is crucial because energy companies operate in high-risk environments. They need to ensure worker safety and monitor factors such as the frequency of worker injuries and leave requirements, the extent to which they train workers in safety, and whether they meet safety standards.

Governance in the ESG score assesses how well a company's leadership structure is, how open and honest it is, how accountable it is, and how effective its internal systems are in protecting the interests of all stakeholders, such as shareholders and lenders. A study by (HARTZMARK & SUSSMAN, 2019) Companies with good governance are more attractive to investors because they are perceived as better able to manage risks such as the possibility of fraud or opacity in how they run their business. Good governance is a key component of ESG because it demonstrates a company's commitment to managing risks ethically and responsibly. Key indicators of good governance include how the board of directors and board of commissioners are structured and how independent they are. Transparency and the sharing of complete and accurate information about a company's finances, risks, and sustainability practices demonstrates that the company is acting responsibly and honestly toward customers and other stakeholders. Sharing clear financial statements helps narrow the information gap between the company and external parties, which in turn builds trust and supports good corporate governance. (Novi Alvionita et al., 2025).

The cost of debt refers to the costs a company incurs when borrowing money, typically recorded as interest expense at the end of each period. This interest expense reduces a company's profit because it is an expense that reduces revenue. The higher the cost of debt, the greater the interest the company must pay, resulting in lower profits. (Imelda et al., 2020). Unlike the cost of equity, the cost of debt is often easier to see, both directly and indirectly, because it is based on the interest rate a company must pay on new loans. This interest rate can be found in financial markets. For example, if a company has an existing bond, the yield to maturity on that bond represents the market interest rate the company must pay on its debt. (Dahlquist, 2020)

The concept of cost of debt is crucial in corporate financial management because it is a key component of the Weighted Average Cost of Capital (WACC) calculation, which is used to evaluate investment feasibility and determine optimal capital structure. For energy companies, which are capital-intensive and require significant funding for exploration, field development, and infrastructure development, understanding the determinants of cost of debt is crucial for financing efficiency.

### **3. Method**

This study uses a quantitative approach with a panel data regression analysis method. This quantitative approach was chosen because this study aims to test the hypothesis regarding the effect of Environmental, Social, and Governance (ESG) performance on the cost of debt of energy sector companies listed on the Indonesia Stock Exchange (IDX). The panel data regression method was chosen because it allows researchers to analyze data that has two dimensions: a time dimension (time series) and an individual or entity dimension (cross-section). By combining these two dimensions, panel data analysis can provide more comprehensive information, improve estimation efficiency, and reduce multicollinearity problems compared to separate time series or cross-section analysis. Furthermore, panel data allows for control of unobserved company heterogeneity, so that estimation results are more accurate in capturing the true effect of ESG on the cost of debt in the energy sector.

This research was conducted in energy sector companies listed on the Indonesia Stock Exchange (IDX). The data used were sourced from financial reports, Bloomberg, and other official information published by the sample companies and accessible through the Indonesia Stock Exchange website ([www.idx.co.id](http://www.idx.co.id)), official company websites, or Indonesian financial databases. This study analyzed data from 2020 to 2024 to gather the most recent and relevant information on how ESG disclosure affects the cost of debt in the Indonesian energy sector.

In this study, the data collection technique used was documentation, which refers to information stored in archives that record the details and timing of events or transactions, as well as the individuals involved. This data was obtained from documents from the Indonesia Stock Exchange (IDX).

The population in this study is all energy sector companies listed on the Indonesia Stock Exchange. The following is a list of 87 energy sector companies listed on the IDX in 2024. The data analysis used panel data regression analysis with the help of EViews version 13 statistical software. This software was chosen for its superior capabilities in handling panel data, statistical testing, and interpreting regression results.

#### **4. Discussion**

The results of this study indicate that Environmental (EVM) has a negative and significant effect on the Cost of Debt in Indonesian energy sector companies listed on the Indonesia Stock Exchange in the observation period 2020-2024. This refers to the t-statistic test data for the Environmental variable which produces a calculated t-value of -3.7119 or greater than the t-table value of 1.9990 with a significance value of  $0.0004 < 0.05$  so that this finding accepts  $H_{a1}$ .

These results can be explained by signaling theory, which states that good environmental disclosure is a positive signal for stakeholders, including creditors, in assessing corporate risk. Energy sector companies with high environmental disclosure demonstrate a greater commitment to environmental risk management, leading creditors to perceive these companies as having a lower risk profile. This lower risk perception encourages creditors to offer lower debt costs as a reward for greater environmental transparency and accountability.

From an agency theory perspective, comprehensive environmental disclosure can reduce information asymmetry between company management and creditors. The more complete and transparent the environmental information disclosed by a company, the less uncertainty creditors face in evaluating credit risk. Consequently, creditors are less likely to charge high risk premiums, which in turn lowers the cost of debt. This reflects the positive response creditors have received from creditors to adequate environmental disclosures in Indonesian energy sector companies, indicating prudent risk management.

The results of this study are in line with research (Eliwa et al., 2021) which found that ESG practices including environmental performance have a significant negative effect on debt costs in European companies, as well as research (Adhi Ryan, 2023) which found that the three ESG aspects have a negative influence on the cost of debt.

These findings are relevant to the real-world conditions in Indonesia's energy sector, which is facing pressures from the energy transition. According to a 2024 report by the Ministry of Energy and Mineral Resources, approximately 35% of total national greenhouse gas emissions originate from the energy sector, primarily from coal combustion for power generation. This

situation encourages creditors to increasingly consider the environmental performance of energy companies as a key component of their credit risk assessments. Energy companies that actively disclose their environmental performance and commit to emissions management are seen as better prepared to face future regulatory pressures, enabling creditors to provide financing at more competitive costs. This direction aligns with the Financial Services Authority (OJK) policy, regulated by POJK No. 51/POJK.03/2017, which encourages the integration of ESG factors into sustainable finance practices, including in the determination of borrowing costs by financial institutions.

In practical terms, these findings provide an important signal for the management of energy sector companies in Indonesia that improving environmental scores is not simply a matter of fulfilling reporting obligations but also a strategic tool for reducing corporate debt costs. Pangestu et al. (2023) found that environmental performance negatively impacted debt costs in Indonesian state-owned enterprises, indicating that companies that actively manage environmental aspects obtain access to cheaper financing from creditors. Therefore, consistently increasing environmental disclosure by energy sector companies in Indonesia is a strategic step that can improve a company's risk profile in the eyes of creditors while supporting the national sustainability agenda.

The results of this study indicate that Social (SCL) has a negative and significant effect on the Cost of Debt in Indonesian energy sector companies listed on the Indonesia Stock Exchange in the observation period 2020-2024. This refers to the t-statistic test data for the Social variable which produces a calculated t-value of -2.6159 or greater than the t-table value of 1.9990 with a significance value of  $0.0112 < 0.05$ , so this finding accepts  $H_{a2}$ .

These results can be explained by stakeholder theory, which states that companies that consider the interests of all stakeholders, including communities, employees, and the wider community, will gain stronger social legitimacy. Energy sector companies with high social performance reflect a strong commitment to social relations with stakeholders, which ultimately reduces the perception of operational and social risk in the eyes of creditors. Creditors assess companies with good social performance as being less likely to face operational disruptions due to social conflict or lawsuits, so they are willing to provide financing at lower costs.

From an agency theory perspective, transparent disclosure of social aspects helps reduce information asymmetry between management and creditors regarding the social and reputational risks inherent in a company. Energy companies that actively report on social, occupational safety, and community development programs provide creditors with confidence that the company is managed responsibly and sustainably, which results in lower debt costs, reflecting a more favorable risk profile.

The results of this study are in line with research (Eliwa et al., 2021) which found that corporate social performance has a negative effect on debt costs, as well as research (Jedidyah Johan & Susanto, 2025a) which states that ESG factors including social aspects have an important role in reducing corporate financing costs by improving risk perception by stakeholders.

In the context of energy sector companies in Indonesia, the social aspect is very crucial considering that this industry interacts directly with local communities, especially regarding land acquisition issues, the impact of mining and oil refinery operations, and the implementation of social and environmental responsibility programs. (Anriasa et al., 2022) found that CSR performance had a negative and significant effect on the cost of debt in companies listed on the Indonesia Stock Exchange, indicating that corporate social commitment significantly reduces creditor risk perceptions. Companies with high social scores are perceived by creditors as less

likely to face operational disruptions due to social conflict, lawsuits, or reputational damage, thus their credit risk profiles are perceived as better and deserving of lower debt costs.

In terms of managerial implications, the results of this study confirm that energy companies' investments in social programs, occupational safety, and community development are not merely a cost burden, but rather provide long-term financial benefits through reduced debt costs. (Yanni et al., 2024) found that CSR disclosure negatively impacts the cost of debt in companies listed on the Indonesia Stock Exchange (IDX), where the higher the quality and quantity of corporate social disclosure, the lower the cost of debt set by creditors. Therefore, serious management of social aspects by Indonesian energy sector companies is an effective financial strategy for obtaining external financing at a more competitive cost while maintaining the company's long-term operational sustainability.

The results of this study indicate that Governance (GVN) has a positive and significant effect on the Cost of Debt in Indonesian energy sector companies listed on the Indonesia Stock Exchange in the observation year 2020-2024. Based on the probability value of Governance (GVN) in Table 4.11 which shows a calculated  $t$  of 3.2440 >  $t$ -table of 1.9990 and a significance value of  $0.0019 < 0.05$ , then  $H_a$  is accepted and  $H_0$  is rejected, meaning that Governance (GVN) has a positive and significant effect on the Cost of Debt (LCOD).

The results of this study support the signaling theory, which states that more comprehensive and transparent governance disclosures signal to creditors about the complexity and potential risks faced by a company. The positive direction of the effect indicates that an increase in governance scores is actually associated with an increase in the cost of debt in energy sector companies. This can be explained by the perspective that companies with more transparent governance tend to disclose more information about the risks they face, including the risks of increasingly stringent regulations and the energy transition. This more comprehensive risk disclosure can actually increase creditors' risk perceptions, ultimately driving up the cost of debt as compensation for the more transparent risks.

The results of this study are in line with research (Syaputri & Linda, 2024) which found that Governance disclosure has a significant effect on company value, as well as research (Adhi, 2023) who found that ESG governance aspects had the most consistent influence compared to environmental and social aspects in influencing corporate financing decisions. Furthermore, this finding is also consistent with research (Jedidyah Johan & Susanto, 2025) which states that ESG factors have an important role in investment and financing decision-making by stakeholders.

This positive finding on governance's impact on debt costs needs to be understood within the specific context of Indonesia's energy sector. Indonesian energy companies, particularly those operating in coal and oil, currently face dual pressures from the national energy transition agenda and demands for increasingly comprehensive risk disclosure. According to data from the Ministry of Energy and Mineral Resources (2024), Indonesia's energy mix is still dominated by fossil fuels at 74%, while the government has a net-zero emissions target by 2060. This situation has led companies with more transparent governance to be more open in disclosing energy transition risks, regulatory risks, and potential stranded assets from their fossil fuel investments. This more comprehensive risk disclosure, while reflecting good governance, actually increases creditor concerns about long-term creditworthiness, driving up debt costs to compensate for these more transparent risks.

Previous research by (Nur, 2024) examining manufacturing and energy sector companies on the IDX for the 2019-2023 period found that overall ESG disclosure was significantly positively related to the cost of debt, as higher ESG engagement can be perceived as increased risk by

creditors due to the high costs incurred to implement sustainability initiatives. This indicates that in the context of Indonesia's still-developing financial market, creditors have not yet fully integrated governance quality as a factor that reduces credit risk. This condition is exacerbated by ESG disclosure standards in Indonesia, which, although regulated through POJK No. 51/POJK.03/2017, are still not fully uniform and standardized, so creditors still have difficulty interpreting governance quality as a consistent positive signal. (Jedidyah Johan & Susanto, 2025)

In terms of managerial implications, these governance findings suggest that energy sector companies in Indonesia need to complement comprehensive governance disclosures with more proactive communication to creditors regarding concrete energy transition risk mitigation strategies. Improving governance scores is not sufficient; companies also need to demonstrate that this increased transparency is accompanied by business plans that adapt to regulatory changes and renewable energy demands. This aligns with the National Committee on Governance Policy (2021), which emphasizes that the implementation of Good Corporate Governance (GCG) must systematically integrate risk management.

## **6. Conclusion**

This study aims to prove the influence of Environmental, Social, and Governance on the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange in 2020-2024 with the following conclusions.

1. *Environmental*(EVM) had a negative and significant effect on the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange in 2020-2024. This suggests that better environmental disclosure is perceived by creditors as a positive signal reflecting prudent environmental risk management, resulting in their willingness to provide financing at lower costs. This finding suggests that the environmental performance of energy sector companies is beginning to be a consideration for creditors when determining the cost of debt.
2. *Social*(SCL) had a negative and significant effect on the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange from 2020 to 2024. This suggests that companies with high social commitment are perceived by creditors as having lower operational and reputational risks, resulting in lower debt costs, reflecting a better risk profile.
3. *Governance*(GVN) had a positive and significant effect on the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange in 2020-2024. Governance through transparency and disclosure of more comprehensive governance information actually increases creditor risk perceptions, especially in the context of energy sector companies facing pressures from the energy transition and increasingly stringent environmental regulations, which ultimately drives an increase in the cost of debt to compensate for these more transparent risks.
4. *Environmental*, *Social*, and *Governance* simultaneously influence the Cost of Debt in energy sector companies listed on the Indonesia Stock Exchange in 2020-2024. The F-test results show that F count is  $10.7676 > F$  table which is 2.7541 with a probability value of  $0.000009 < 0.05$ . The Adjusted R-squared value of 31.41% indicates that the three ESG variables are able to explain the variation in the cost of debt by 31.41%, while the remaining 68.59% is explained by other variables outside this research model.

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