

Does ESG Affect Bank Lending to Companies?

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Abstract: with the serious intensification of global warming in recent years, countries around the world are actively developing carbon neutrality, carbon peaking, and reducing carbon emissions to ensure a healthier operation of the earth. To cooperate with the low-carbon policies of various countries, companies have also begun to implement policies to reduce carbon emissions and save energy, so ESG has gradually become a hot topic. ESG indicators are also becoming increasingly important in the financial industry. This research is a review essay. The research direction is to explore whether ESG indicators will affect corporate credit in banks by studying the policies and various data on carbon emissions that have been released by countries and by reading published papers. Through research on government policies and current thesis research, it is shown that there are currently no clear policies or rules stipulating how ESG indicators will affect corporate credit in banks, but the current banking industry will indeed pay more attention to ESG performance of companies when leading to companies, good ESG indicators will lead to better bank credit and lower cost of banking credit.

Keywords: Green finance, Green credit, ESG performance, Carbon peak, Carbon neutrality

1. Introduction

In recent years, as ESG indicators have gradually become an important factor in evaluating the performance of non-financial aspects of companies, the banking industry has also begun to consider whether to lend before incorporating ESG indicators into assessment factors. ESG indicators examine a company's non-financial performance in three dimensions.

(1) Environmental:

Environmental criteria assess a company's commitment to environmental protection, which encompasses aspects such as managing climate risks, striving for carbon emissions reduction, and addressing the impacts of climate change.

(2) Social:

Social criteria assess how a company maintains relationships with its employees, suppliers, customers, and the communities in which it conducts its operations.

(3) Governance:

In the realm of governance, topics such as management, audits, executive compensation, shareholder rights, and the structure of the board are all actively discussed and addressed [1]. ESG-related dimension criteria topics are in Table 1 [2].

Table 1: ESG-related dimension criteria topics

ESG - Related Dimension Criteria Topics		
Environmental	Social	Governance
Biodiversity	Addressing Cost Burden	Anti-Crime Policy & Measures
Building Material	Asset Closure Management	Brand Management
Climate Strategy	Corporate Citizenship & Philanthropy	Codes of Business Conduct
Co-processing	Financial Inclusion	Compliance with Applicable Export Control Regimes
Electricity Generation	Health Outcome Contribution	Corporate Governance
Environmental Policy & Management System	Human Capital Development	Customer Relationship Management
Environmental Reporting	Human Right	Efficiency
Fuel Efficiency	Labor Practice Indicators	Energy Mix
Genetically Modified Organisms	Labor Impact of Business Operations	Financial Stability & System Risk
Low Carbon Strategy	Occupational Health & Safety	Fleet Management
Mineral Waste Management	Partnerships Towards Sustainable Healthcare	Health & Nutrition
Operational Eco-Efficiency	Passenger Safety	Information Security
Packaging	Responsibility of Content	Innovation Management
Product Stewardship	Social Impacts on Communities	Market Opportunities
Raw Material Sourcing	Social Interaction & Regeneration	Marketing Practices
Resource Conservation & Resource Efficiency	Social Reporting	Materiality
Sustainable Forestry Practices	Stakeholder Engagement	Privacy Protection
Transmission & Distribution	Strategy to Improve Access to Drugs or Products	Risk & Crisis Management
Water Operations	Talent Attraction & Retention	Supply Chain Management
Water-Related Risks		Sustainable Finance

ESG helps enterprises to manage and control non-financial risks to get more profit and social reputation. ESG performance reflects the company's sustainable profitability. Previous studies and surveys have shown that the research results on ESG are unclear, and the current global financial system fails to reflect the correlation between ESG indicators and corporate credit. However, there is much controversy over whether ESG indicators affect corporate bank loans. Most economists and businesspeople believe that ESG factors will reduce the cost of equity and financing. ESG indicators can not only examine the company's financial indicators but also analyze the company's non-financial indicators [3]. By combining the company's financial statements and ESG reports, corporate risks can be discovered, commercial fraud can be reduced, and banks can have more confidence in corporate investment [4]. However, even though the financial and banking industries are increasingly interested in ESG indicators and the topic of ESG is becoming increasingly popular, ESG indicator factors have not been clearly included in the financial and banking industries' assessment of a company's investment risk. The relevance of non-financial elements within ESG measurements has surged in recent years, prompting various financial journals in the media to shift their attention towards matters pertaining to environmental, social, and governance advancements. Certain news sources have highlighted the perspective of how adverse information related to the aforementioned areas can influence a company's financial well-being. This includes the potential loss of key clients, decreased business operations due to environmental risks, and adverse effects on the company's financial health, among other factors. The second part of the following article is a literature review, which involves

reading and analyzing previous research and literature summaries and putting forward your own hypotheses. The third part is the verification of your own hypotheses and discussing new research findings through regression analysis. The last part summarizes and analyses the limitations of current research and makes an expectation for the future development of the ESG industry.

2. Literature Review

Because of the outbreak of the epidemic in 2020 and more and more companies experiencing thunderstorms in recent years, some loan companies have faced huge fines or even closures due to environmental and social problems. Let the banking industry and entrepreneurs pay more and more attention to the importance of ESG indicators in judging a company's risks. According to the information available in the Wind database, as more and more companies in my country are listed on the A-share market, the overall amount of ESG report disclosure is also increasing year by year. This unequivocally demonstrates that listed companies in China are increasingly prioritizing ESG considerations. The impact of indicators on enterprises. From an industry perspective, the pharmaceutical industry will publish the largest number of ESG reports in 2021, followed by the automotive industry. As mentioned above, due to the outbreak of the epidemic in 2020, many pharmaceutical companies have developed very well and gained more benefits. At the same time, companies also believe that they can improve their non-financial performance to show their sustainability. reliability. However, compared with H shares (52.2%) and even Western countries such as the United Kingdom and the United States, the report disclosure rate of domestic A-share companies still has a lot of room for improvement. It is also because my country's involvement in ESG indicators (BYD's literature) is relatively late compared to Western countries, and we still have a lot of room for improvement.

In recent years, more and more financial scientists and business managers have begun to study whether corporate ESG will affect bank loans to companies. Although ESG indicators have not yet been officially included in banks' credit rating factors for enterprises when lending, as ESG is paid more and more attention, banks will also consider relevant ESG factors as auxiliary factors to assess corporate risks. Generally, good ESG performance leads to higher credit ratings (ESG and credit) [5]. Conventional bank credit assessments typically consider the financial position of the company and fundamental qualitative data to gauge the creditworthiness of the borrower and anticipate the likelihood of the company defaulting [6]. However, some of them have begun implementing social ratings and sustainable credit score evaluations. At the same time, Zeidan et al. raise questions about whether future sustainability and the enduring effects of social responsibility initiatives have an impact on the likelihood of default. Ge and Lui highlighted that "greater CSR intensity scores are linked to narrower yield spreads in the case of new corporate bond offerings." Comparable results were discovered in a separate study conducted by Cooper and Uzur , in which they argued that corporate social responsibility commitments demonstrate an inverse relationship with the cost of debt associated with bank loans [7]. The study conducted by Ge and Lui demonstrates an inverse correlation between the CSR intensity score and the yield spread of new corporate bonds. This suggests that higher CSR intensity scores are linked to narrower yield spreads in these bonds. They contend that greater corporate social responsibility policies can lower debt costs.

At the same time, some scholars believe that ESG has a negative impact on corporate bank loans. Menz found that companies that strengthen and clarify ESG goals in the strategic decision-making process have higher risk premiums [8]. Research conducted by Goss and Roberts indicates that bank lenders do not reflect the adoption of corporate social responsibility (CSR) practices in their loan spreads.[9] Interestingly, their initial analysis discovered that ESG (Environmental, Social, and Governance) measures do not significantly impact company value and do not lead to additional financial gains. Oltitzky et al. presented the same argument. ESG measurements are not significant to

investors, according to Revelli and Revelli and Viviani, nor are they taken into consideration while designing ESG measures. There are more and more related literature studies on ESG and bank loans. Most of the initial studies believe that ESG is not related to corporate bank loans. As society continues to progress and the effects of the pandemic become more apparent, a growing body of research is highlighting a substantial positive link between corporate ESG performance and bank credit evaluations. Nonetheless, previous studies in the literature often focus exclusively on either the Chinese financial market or Western economic markets, with limited attention given to combining insights from both Chinese and Western financial markets. The economic and market situations are combined and analyzed together, and we think about what aspects of the Chinese economic market that have only recently begun to study the field of ESG still need to learn from the improvement of the Western economic market. Next, I will conduct research on green credit policies from the Chinese and Western governments and think about the differences between the two.

3. Analysis

In recent years, extreme climate events have occurred frequently, and climate risks have further intensified. Countries all over the world have developed their own green financial systems, nurtured green financial markets, and fostered international collaboration to adapt to the changing living environment and achieve sustainable social and environmental development.

According to the "Global Green Finance Development Report (2022)" and "China Local Green Finance Development Report (2022)" released by the Green Finance International Research Institute of the Central University of Finance and Economics, the top ten countries in the global green finance development index are the United Kingdom, France, Germany, China, Sweden, Japan, Netherlands, Denmark, United States and Spain. Countries with relatively developed economies and relatively complete financial market foundations have better green finance development. China has relied on policy efforts in recent years and the efforts of market participants to rank fourth in the world. According to the total score of the Green Finance Development Index and the three separate scores of 55 countries in the world provided by the "Global Green Finance Development Report (2022)", although North American developed countries represented by the United States and Canada rank among the top in overall scores, they did not score high on policy and strategy. This not only reflects the differences in the intensity of policies to promote green finance development among developed countries but also reflects the differences between market-led green finance development models and policy-driven green finance development models. EU countries generally have higher scores in terms of policies and strategies. Only policies and laws enforced by EU countries will be considered as scored policies for all EU countries. This means that some recommended policies at the EU level that do not have mandatory implementation requirements are not counted. The EU will impose carbon tariffs on some high carbon imported goods from 2023. In March 2022, the proposal for the "Carbon Border Adjustment Mechanism" regulation was adopted by the European Commission. The Russian-Ukrainian conflict in 2022 will be short of energy. Controversial projects included in the sustainable finance catalog [9]. In the coming years, it is expected that geopolitical confrontations and conflicts between countries and regions may pose constraints on the potential for dialogue and collaboration in the realm of green finance [10].

On July 7, 2023, the Jiangsu Provincial Department of Ecology and Environment and the Department of Finance issued the "Notice on Organizing the Application for Green Bond Interest Subsidies and Green Guarantee Awards and Subsidy Funds for 2023." On July 4, 2023, the Shaoxing Municipal People's Government released the "Implementation Plan for the Construction of Shaoxing's "Lucid Waters and Lush Mountains Are Gold and Silver" Practice and Innovation Base (2023-2025). Financial institutions are urged to develop specialized credit products that distinguish between various sectors, exercise caution in extending credit to "high-carbon and low-efficiency"

industries and prioritize addressing the financing requirements of green and low-carbon sectors. In Chapter 4 - Investment and Financing Process Management of the "Green Finance Guidelines for the Banking and Insurance Sector" issued by the China Banking and Insurance Regulatory Commission, all clauses emphasize the need to conduct detailed due diligence on the lending companies when conducting green credit, including Investigate a variety of ESG aspects of your business. According to the above summary, in developed countries, the display of policies is not as comprehensive as in developing countries. Part of the reason is that developed countries no longer need more policy support to implement green finance in the economic market. Nonetheless, owing to various constraints in developing countries, there is a pressing need for the government to introduce additional policies aimed at fostering the growth of green finance. According to data provided by the People's Bank of China shown by the figure 1, the total balance of green loans in both domestic and foreign currencies in our country reached 22.03 trillion yuan at the end of 2022. This represented a significant year-on-year increase of 38.5%, surpassing the growth rate of other loan types by a substantial margin, with a difference of 28.1 percentage points. As illustrated in the chart below, the foreign currency green loan balance in China has exhibited a consistent upward trajectory from 2018 to 2022, spanning a five-year period. From 2021 to 2022, the green loan balance has increased by leaps and bounds, and the country has paid more and more attention to green credit [11]. The following Table2 summarizes the national policies related to ESG that exist in China.

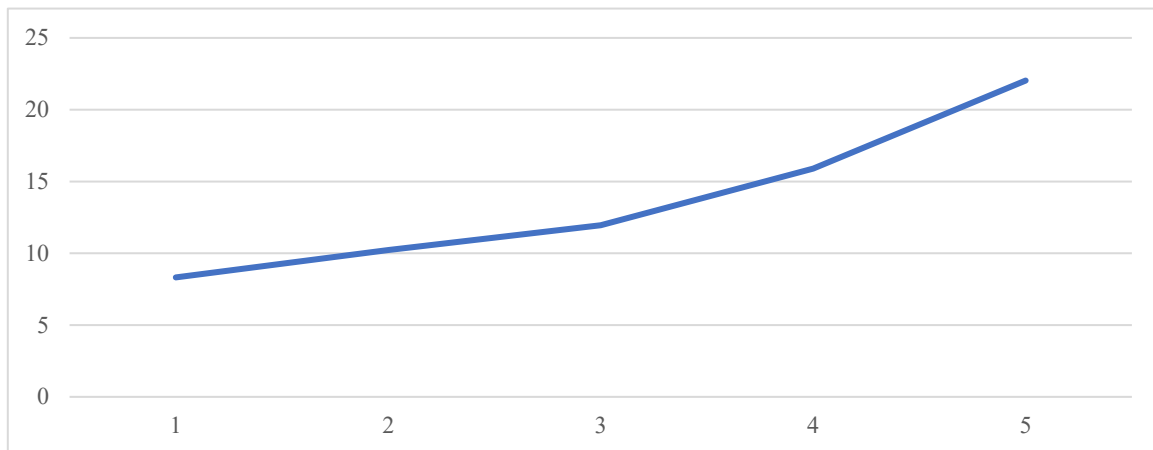


Figure 1: China Green Foreign Currency Loan Balance

Table 2: National policies related to ESG that exist in China

Administrative District	Document Title	Policy Objectives	Development and administration agency	Issue Time
Jiangsu	Notice on organizing the declaration of 2023 green bond discount interest and green Guarantee award supplement funds	According to the requirements of the "Implementation Opinions on Further Promoting the High-quality Development of Green Financial Services Ecological Environment" and other documents, this notice is formulated in order to give full play to the effect of fiscal policies, continuously optimize the green financial awards and subsidies policy with Jiangsu characteristics, and continue to further promote the high-quality development of green financial services ecological environment	Jiangsu Provincial Department of Ecology and Environment Jiangsu Provincial Department of Finance	2023/7/7

Table 2: (continued).

Hunan	Implementation opinions of the General Office of Hunan Provincial People's Government on Deepening the system reform of ecological protection compensation	In order to thoroughly implement Xi Jinping Thought on Ecological Civilization, fully implement the spirit of the central government's opinions on deepening the reform of the ecological protection compensation system, and accelerate the construction of the ecological civilization system, with the consent of the Hunan Provincial Party Committee and the Provincial People's Government, these implementation opinions are proposed	Hunan Provincial People's Government General Office	2023/7/14
Fujian	Fujian Province industrial carbon peak implementation plan	In order to effectively implement the carbon peaking work in the industrial sector, accelerate the green and low-carbon transformation of industry, and promote the green and high-quality development of industry, according to the "Carbon Peaking in the Industrial Sector" jointly issued by the Ministry of Industry and Information Technology, the National Development and Reform Commission, and the Ministry of Ecology and Environment Implementation Plan" and the requirements of the Fujian Province Carbon Peak Implementation Plan, this implementation plan was formulated	Fujian Provincial Department of Industry and Information Technology Fujian Provincial Development and Reform Commission Fujian Provincial Department of Ecology and Environment	2023/7/18
Guizhou	New urbanization implementation plan of Guizhou Province	In order to thoroughly implement the "National New Urbanization Plan (2021-2035)" and the "Opinions on Promoting Urbanization Construction with County Towns as an Important Carrier" and the "14th Five-Year Plan New Urbanization Implementation Plan", accelerate the promotion of people-oriented The core new urbanization with mountainous characteristics, optimizing urban layout, strengthening urban economy, improving urban quality, striving to promote urban upgrading, this implementation plan is specially formulated	Fazha and Reform Committee of Guizhou Province	2023/7/21
Jilin	Jilin Province urban and rural construction field carbon peak work program	In order to thoroughly implement the "Opinions of the State Council on the Complete, Accurate and Comprehensive Implementation of the New Development Concept and the Work of Carbon Peaking and Carbon Neutrality", the "Carbon Peaking Action Plan before 2030", and the "Carbon Peaking Implementation Plan in the Urban and Rural Construction Sector" » spirit, in accordance with the carbon peak work deployment of the Jilin Provincial Party Committee and the Provincial Government, and solidly promote the realization of the carbon peak goal in the urban and rural construction field, this work plan is formulated	Jilin Provincial Department of Housing and Urban-Rural Construction Jilin Provincial Development and Reform Commission	2023/7/26
Guangyuan	Guangyuan City focuses on high-quality development to promote the overall improvement of economic operation of a number of specific policies and measures	In order to conscientiously implement the requirements of the Provincial Government's "Notice on Issuing Several Policies and Measures to Focus on High-Quality Development to Promote the Overall Improvement of Economic Operations", vigorously implement the "1345" development strategy, strive to promote high-quality development, and go all out to fight for economy and development. , to promote the overall improvement of Guangyuan City's economic performance in 2023, this measure is specially formulated	Guangyuan Municipal People's Government	2023/7/1
Jiangmen	Jiangmen City carbon peak implementation plan	In order to thoroughly implement the decisions and arrangements of the Party Central Committee and the State Council on carbon peaking, carbon neutrality and strategic decisions and the work requirements of the Provincial Party Committee and the Provincial Government, completely, accurately and comprehensively implement the new development concept, accelerate the construction of a new development pattern, and effectively implement the system concept To carry out the city's carbon peaking work in an orderly manner to ensure that the carbon peaking goal is achieved as scheduled, this plan is formulated	Jiangmen City People's Government	2023/7/3

Table 2: (continued).

Shaoxing	Shaoxing City "clear water and green mountains is Jinshan silver mountain" practice innovation base construction implementation plan	In 2022, Shaoxing City successfully created a national ecological civilization construction demonstration zone. In order to continue to deepen the construction of ecological civilization and strive to create a "lucid waters and lush mountains are gold and silver mountains" practice innovation base, this implementation plan is specially formulated	Shaoxing Municipal People's Government	2023/7/4
Wenzhou	Several policies to promote the high-quality development of new energy in Wenzhou	In order to strive to build a national new energy production capacity center and application demonstration city, according to "Wenzhou City's Several Policies and Measures to Support the Development and Promotion of New Energy Vehicle Industry", "Several Policies on Promoting High-Quality Economic Development", and "Wenzhou Municipal People's Government's Comprehensive "Several Policy Opinions on Accelerating Scientific and Technological Innovation to Promote High-quality Industrial Development" and other documents, this policy is specially formulated	Wenzhou Municipal People's Government Office	2023/7/5
Shenzhen	The implementation plan for implementing the Opinions on Financial Support for Comprehensively Deepening reform and opening up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone	In order to further promote the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area", the "Comprehensively Deepening the Reform and Opening-up Plan of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone", and the "People's Bank of China Banking and Insurance Regulatory Commission China Securities Regulatory Commission Foreign Exchange Bureau Guangdong Provincial People's Government's Financial Support Qianhai "Opinions on Comprehensively Deepening Reform and Opening Up in the Shenzhen-Hong Kong Modern Service Industry Cooperation Zone", adhering to the principle of "relying on Hong Kong, serving the mainland, and facing the world", and comprehensively strengthening the national financial industry opening pilot demonstration window and cross-border RMB business in the Qianhai-Hong Kong Fairy Belt Service Industry Cooperation Zone. To innovate the function of the experimental zone, support Hong Kong's integration into the new pattern of national financial reform and opening up, and enhance Hong Kong's status as an international financial center, this plan is formulated	General Office of Shenzhen Municipal People's Government	2023/7/10
Tongren	Tongren City "14th Five-Year" comprehensive work plan for energy conservation and emission reduction	In order to vigorously promote the synergy of energy conservation, emission reduction and carbon reduction, continue to fight the tough battle against pollution, accelerate the establishment and improvement of a green low-carbon circular development economic system, promote the comprehensive green transformation of economic and social development, and help achieve the goals of carbon peak and carbon neutrality, we have formulated Tongren actually formulated this plan	Tongren People's Government	2023/7/11
Liuzhou	Liuzhou City carbon reduction target work implementation plan	According to the requirements of Guangxi's "Decomposition Plan for GDP Carbon Dioxide Emission Reduction Targets of Units in Districts and Municipalities during the 14th Five-Year Plan", in order to complete the carbon dioxide emission reduction targets for Liuzhou City's unit GDP during the 14th Five-Year Plan as scheduled, in conjunction with the "Guangxi Key Tasks to Address Climate Change (2023-2025)", "Liuzhou City's "14th Five-Year Plan" Energy Saving and Emission Reduction Comprehensive Implementation Plan" and Liuzhou's actual work, this plan is specially formulated	Liuzhou City climate change and energy conservation and emission reduction work leading group office	2023/7/13

Table 2: (continued).

Weihai	Weihai City to build a national innovative city implementation plan	In order to further implement the innovation-driven development strategy, implement the "Opinions of the State Council on Supporting Shandong to Deepen the Transformation of New Momentums and Promote Green, Low-carbon and High-Quality Development" and build a higher-level national innovative city, according to the "Opinions of the Ministry of Science and Technology and the National Development and Reform Commission on the Issuance of Station "Notice on the Establishment of Innovative Work Guidelines" and "Notice of the People's Government of Shandong Province on Issuing the Implementation Plan for the Construction of an Innovative Province in Shandong Province". Based on the "Ten Major Innovations" of Shandong Province and the actual situation of Weihai, this implementation plan was formulated	Weihai City People's Government	2023/7/16
Shantou	Shantou City to accelerate the establishment of a sound green low-carbon circular development economic system implementation plan	In order to implement the deployment requirements of the "Guiding Opinions of the State Council on Accelerating the Establishment of a Sound Green, Low-carbon Circular Development Economic System" and the "Implementation Opinions of the Guangdong Provincial People's Government on Accelerating the Establishment of a Sound Green, Low-carbon Circular Development Economic System", we will accelerate the establishment and construction of the entire Shantou City To develop a green, low-carbon and circular economic system and promote the comprehensive green transformation of economic and social development, this plan is now formulated based on the actual situation of Shantou City	Shantou Municipal People's Government	2023/7/18
Hangzhou	Implementation opinions of the General Office of Hangzhou Municipal People's Government on Accelerating the high-quality development of green energy industry	In order to implement the strategic decision-making and deployment of carbon peak neutralization and seize new opportunities for energy reform and the window period for green and low-carbon development, with the consent of the Hangzhou Municipal Government, these implementation opinions are hereby put forward to accelerate the high-quality development of Hangzhou's green energy industry.	General Office of Hangzhou Municipal People's Government	2023/7/20

4. Conclusion

In summary, this study provides additional evidence on whether ESG affects bank lending to businesses, the views of governments around the world on green finance policies and attitudes, and changes in green credit balances in the banking industry. ESG performance has a significant influence on banks' lending decisions to companies, with a company's ESG performance quality being directly linked to the amount of bank loans it can secure. In the last two years, an increasing frequency of natural disasters, the consequences of climate change, and the occurrence of epidemics have posed numerous environmental and climate-related challenges for a multitude of companies. Especially in the past two years, governments around the world have successively issued various policies on carbon reduction, energy conservation, carbon neutrality, and carbon peaking. Corporate ESG indicators have indeed played a crucial role in evaluating the non-financial performance of companies. The influence of non-financial performance on overall profitability is steadily growing. Although the banking industry does not have clear regulations and determination rules indicating that ESG will be included in a company's credit assessment score, the banking industry has also successively separated various aspects of corporate ESG performance for observation. And will be included in credit assessment to a certain extent. Finally, there are several important limitations that need to be considered. This study primarily demonstrates that ESG factors influence banks' lending decisions to companies, drawing upon the findings of this research and various data. However, there is a notable absence of specific studies regarding the direct impact of ESG performance on banks themselves.

There is no complete data to support research on the specific impact of corporate lending. In the future, as global research on environmental protection and sustainable green development has protected the earth's ecological environment and prevented the earth from further aggravating global warming, the ESG topic will surely become the hottest topic, and future research in this field will also be Aggravated. There is still a lot of room for exploration in research on ESG and green finance-related fields.

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