

ABSTRACT

Transparency regarding Environmental, Social, and Governance (ESG) aspects has become a strategic instrument for companies to mitigate information asymmetry between management and capital providers. However, the mechanism of how such disclosure reduces the cost of capital, particularly through the role of financial constraints, still requires deeper investigation. Therefore, this study aims to analyze the effect of ESG disclosure on the cost of equity in manufacturing companies in Indonesia, as well as to examine the role of financing constraints as a mediating variable in this relationship.

The study utilizes a population of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2024. Through purposive sampling and outlier removal, a sample of 33 companies (132 observations) was obtained, all of which maintain consistent ESG score data in the Bloomberg database. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM) approach, ESG disclosure is measured by the Bloomberg disclosure score, and financing constraints are measured using the SA-index. Data analysis was conducted using panel data regression in Stata 17, along with the application of the Sobel Test to evaluate the significance of the indirect (mediating) effect.

The results indicate that ESG disclosure has a negative and significant effect on the cost of equity, suggesting that increased non-financial transparency directly reduces the risk premium demanded by investors. However, ESG disclosure was found to have no significant effect on financing constraints, implying that ESG disclosure has not yet effectively mitigated companies' financial hurdles. Furthermore, financing constraints unexpectedly show a negative and significant effect on the cost of equity, which contradicts established theory. Based on the mediation test results, financing constraints are not proven to mediate the relationship between ESG disclosure and the cost of equity. These findings suggest that in the Indonesian manufacturing sector, ESG signals are responded to directly by the equity market to lower the cost of capital, rather than through the mechanism of alleviating financing constraints.

Keywords: *ESG Disclosure, Cost of Equity, Financing Constraints.*

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