

A top-down photograph showing a person's hands holding a small, round succulent plant in a mound of dark soil. The hands are positioned centrally, with the fingers gently cupping the soil. The background is a dense layer of green moss, and a white, crumpled fabric is visible at the top of the frame. The overall lighting is soft and natural, highlighting the textures of the soil, the succulent, and the moss.

Green WACC

Should sustainable firms have a lower cost of capital?

What is WACC?

WACC = Weighted Average Cost of Capital

It's the minimum return a company needs to justify an investment.

It includes:

- **Cost of Equity**
- **Cost of Debt**
- **Weighted by capital structure**

Enter: Green WACC

The big question:

- ☞ Should companies doing better on sustainability get a lower WACC?**
- ☞ And does it actually happen in real life?**

Why would WACC be lower for sustainable firms?

Because of 3 main reasons:

- ✓ Lower perceived risk**
- ✓ Higher investor demand (especially for ESG funds)**
- ✓ Better access to green incentives (like tax benefits or subsidies)**

Green Bonds Have **Lower Yields**

Zerbib (2021) found:

➔ Green bonds have ~2 basis points lower yields than similar non-green bonds.

✓ Investors accept lower returns for ESG-aligned investments.

Lower Cost of Equity Too

MSCI and BlackRock studies show:



Firms with strong ESG scores have:

- **Lower stock volatility**
- **Less downside risk**

➔ Result: Up to 20% lower cost of equity vs. low-ESG peers

Cost of Debt?

'Greenium' is real.

HSBC (2023):

 **Green bonds in Europe issued at 15–20 bps lower spread**

 **This means cheaper debt for sustainable companies.** 



Real-World **Implications**

Lower WACC means:

- ✓ Higher NPV of projects**
- ✓ More capital access**
- ✓ Competitive edge in bidding for infrastructure & energy deals**

So... Should WACC Be Lower for ESG Leaders?

👉 The evidence says: YES!

But...

📌 It depends on market perception, regulatory context, and investor behavior.