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.**